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# INFRASTRUCTURE AND JOBS

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## HEARING

BEFORE THE

## COMMITTEE ON
## ENVIRONMENT AND PUBLIC WORKS
## UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

FIRST SESSION

ON

## S. 23, S. 532, S. 724, S. 871, AND S. 1330

JULY 15, 1983

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# INFRASTRUCTURE AND JOBS

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FRIDAY, JULY 15, 1983

U.S. SENATE,
COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS,
*Washington, D.C.*

The committee met at 10:30 a.m., in room SD-406, Dirksen Senate Office Building, Hon. Robert T. Stafford (chairman of the full committee) presiding.

Present: Senators Stafford, Domenici, Randolph, Burdick, Moynihan, and Mitchell.

## OPENING STATEMENT OF HON. ROBERT T. STAFFORD, U.S. SENATOR FROM THE STATE OF VERMONT

Senator STAFFORD. The Committee on Environment and Public Works will please come to order.

It is an honor to welcome Governor O'Neill and our many distinguished witnesses this morning.

As a result of earlier hearings, this committee reported out a modified version of S. 724 to the Senate. Once the Committee on Energy and Natural Resources acts on S. 724 later this month, that bill will be ready for floor action.

In reporting S. 724, this committee took no action on the issue of public capital investment needs. The need to augment public capital spending remains an important challenge.

The percentage of this Nation's gross national product that is spent on infrastructure has declined steadily in recent years and now stands at a level far lower than any other major industrialized nation. It is my view that our committee must develop a reasonable approach that would reverse that decline, encouraging all levels of government to act in a responsible way to rebuild and renovate our infrastructure.

It is noteworthy that recent studies show that this problem is manageable if we work together at various levels of government. I share that belief and extend to my colleagues an invitation that we make every effort this year to move forward with effective legislation.

### OPENING STATEMENT OF HON. JENNINGS RANDOLPH, U.S. SENATOR FROM THE STATE OF WEST VIRGINIA

Mr. Chairman, I am pleased to join you this morning as the committee conducts hopefully its final hearing on our infrastructure needs. Earlier testimony this year was helpful, but we did not have available at that time two reports on which we shall hear testimony this morning.

I particularly am anxious to receive the views of Dr. Rivlin on the Congressional Budget Office study and that of Councilwoman Plumb on the National League of Cities' infrastructure survey. I am sure this testimony will be valuable and helpful.

After today I am hopeful that the committee can schedule for action S. 1330 and other companion legislation following the Labor Day recess. Thank you, Mr. Chairman, for scheduling this additional hearing on these two thought-provoking studies.

Senator **Stafford**. Senator Moynihan, do you have any opening statement?

Senator **Moynihan**. I will defer to Senator Burdick.

Senator **Stafford**. Senator Burdick?

Senator **Burdick**. No, Mr. Chairman.

Senator **Moynihan**. Mr. Chairman, I have a statement I would like to place in the record. If I could just take 20 seconds to welcome our distinguished guests.

Senator **Stafford**. Without objection, we will place your entire statement in the record.

Senator **Moynihan**. I want to make three points. The first is that this committee has been concerned with this question for a very long while. In 1977 we first began to ask whether or not we had begun to disinvest in public works. The word "infrastructure" had not yet appeared among us.

The research has been done. The chairman is absolutely correct, in real terms we have been running down, we have been using up. It is a trite observation, but from 1965 to 1979, the U.S. gross investment dropped from 2.5 percent of GNP to 1.5. The capital outlays went up from 2.4 to 6.4.

There is a symbol, Mr. Chairman, which I know this committee is particularly sensitive to. I think we shouldn't be too casual about this. This year the U.S. Corps of Engineers, which has come to this committee for the last 140 years to talk about internal improvements as they were first known, this year the U.S. Corps of Engineers is carrying out more construction in Saudi Arabia than it is in the United States, and next year the disparity will be even greater.

Lastly, Mr. Chairman, I would like simply to say that I think the League of Cities and the Conference of Mayors has done us a great service by making the point that if there is a lot to do, well, there are a lot of us and that we need not be paralyzed by the job. We just should simply get on with it.

Thank you.

[Senator Moynihan's prepared statement follows:]

### STATEMENT OF HON. DANIEL PATRICK MOYNIHAN U.S. SENATOR FROM THE STATE OF NEW YORK

Mr. Chairman, I thank you for calling this hearing. Some very important facts have emerged in the past several months about the "infrastructure" problem and we will hear about them from witnesses at this hearing. Essentially, we have learned that the infrastructure problems facing the country are manageable. Not inconsequential by any means, but not cataclysmic, either. As the National League of Cities and U.S. Conference of Mayors stated in their report this past April, "we need not be paralyzed by their magnitude."

The Congressional Budget Office, also in April of this year, estimated the overall requirement for critical public works spending between now and 1990 at somewhat less than $500 billion. The Federal share would be somewhat more than half of that. CBO calculates that, within existing program structures, the Federal Government would have to spend but an additional $4 billion a year to meet its share of the expenditure. This estimate is considerably lower than earlier cost predictions.

The editors of the League of Cities-Conference of Mayors survey, after reviewing the cities' own estimates of their infrastructure problems, concluded that "a steady but manageable investment over a number of years could and would enable communities to start work on the capital assets ranked as highest priorities."

Encouraging as all this is, we still do not have the information we need to be confident of devising infrastructure programs that will be effective. For example, the CBO study points out that we may need to revise the focus of Federal assistance, a point that has been made in previous studies. To repeat only the most often stated point, Federal public works assistance for some time has favored new construction to the exclusion and detriment of maintenance of existing structures.

The League-Conference survey admits to a critical flaw: the great majority of cities seem not to have regular, formal quality assessment and inventory procedures for their public capital facilities. Moreover, the survey concludes that "cities vary greatly in their ability to finance infrastructure needs, and have varying needs for Federal and State assistance."

Financing is central, of course. A grab-bag of public, private, and public-private financing schemes have been proposed. Some may cause as many problems as they solve. The sale-leaseback arrangements to which cities are increasingly turning in their hunger for cash to pay for infrastructure repairs are, in the views of some in the Congress and the Treasury, eroding the Federal income tax base. There is a question, too, of diverting private capital from industrial to public works investment.

It is a fact, too, that different kinds of public works receive greatly varying degrees of Federal assistance. The CBO estimates current annual levels of Federal spending in seven different categories—six if one lumps together two having to do with air transportation. The category "municipal water supply" is the smallest of the six.

CBO concludes that there is little additional need for Federal assistance in this area. But CBO bases this conclusion in large part on the Federal assistance currently distributed through three Federal agencies—Economic Development Administration, the Appalachian Regional Commission, and the Department of Housing and Urban Development—that are under furious assault by the Reagan Administration's budget-cutters.

The League of Cities-Conference of Mayors survey reports that water distribution is one of the cities' six highest priorities for capital investment. And I suggest that, given the cities' admittedly flawed means of assessing the quality of infrastructure elements, they may be seriously understating the need for water distribution systems' rehabilitation. Indeed, an article in the April 7, 1983 issue of Engineering-News Record magazine stated "few of the public agencies responsible for building, operating, and maintaining these neglected networks (of sewer and water systems) . . . have even the foggiest notion of where their problems are or how to resolve them." One expert quoted in the article said, "the biggest problem is that most agencies don't know they have a problem."

So, while we are advancing our knowledge of the infrastructure problem, we still lack the quality and quantity of information necessary to forge a consensus about its solution. What is to be done?

Last year, I introduced legislation to establish a commission to recommend a rational, well-planned Federal infrastructure program, including the experimental use of a Federal capital budget analysis. I re-introduced that bill this year as S. 23. It is a subject of this hearing.

But the bill which I would like to bring to the attention of the Committee is S. 1026, which Senator Dodd and I introduced on April 12, with the cosponsorship of Senators Randolph, Hart, and Inouye. This bill was mistakenly not referred to this Committee, but I would like to place a copy, along with the accompanying floor statement, in the hearing record.

S. 1026, the Federal Capital Investment Act of 1983, would establish a Commission on Public Improvements to compile a national inventory of public works, establish priorities for public works construction and rehabilitation, examine various means of financing those improvements, and recommend changes in Federal programs to make Federal assistance more effective.

Equally importantly, S. 1026 would incorporate Senator Dodd's initiative to require the Federal Government to prepare a capital investment schedule within the unified Federal budget. This schedule would force us to identify, as we have not before, just what we are spending on capital investment and how we are spending it.

Why a commission to study a problem that is already being scrutinized in so many different quarters? The greatest value an independent commission may have is in helping us reach a consensus on the dimensions both of a problem and its solution. The gap between Social Security revenues and outlays was considered unsolvable until the Commission on Social Security, on which I sat and to which I devoted most of my time this past January, established a nonpartisan consensus on the size of the problem and on the range of appropriate responses.

The Commission on Public Improvements proposed in S. 1026 will have the same effect. It could break the legislative impasse I fear we are facing on the infrastructure problem and simultaneously assure that the responses to the problem are built on a base of firm and rational planning. The capital investment schedule in the Federal budget is similarly aimed at assuring that our infrastructure decisions are based on accurate information.

The states, which have a more immediate responsibility for public works than does the Federal Government, are already establishing such commissions. The governors of California, Colorado, and Maryland and the Speaker of the New York State Assembly have all established task forces to conduct inventories, draft improvement plans and devise financial mechanisms to underwrite the necessary projects.

Following this hearing, I intend to refine the objectives of the Commission proposed in S. 1026, to emphasize local rather than national priority-setting and to concentrate its focus on alternative fiscal approaches. I believe that this legislation should form the core of this Committee's response to the infrastructure challenge facing us.

Senator **STAFFORD**. I thank you very much, Senator Moynihan.

Senator Mitchell?

## OPENING STATEMENT OF HON. GEORGE J. MITCHELL, U.S. SENATOR FROM THE STATE OF MAINE

Senator **MITCHELL**. Thank you, Mr. Chairman.

I will be very brief because I know we all look forward to hearing from the witnesses.

Senator Moynihan has correctly stressed this is a problem which has been before this committee for a long time; so long that it has become clear that we are dealing with a serious problem of national dimensions. The question no longer is whether we ought to do something but what we are to do.

In that regard, I commend Senator Moynihan, Senator Stafford, Senator Randolph, and Senator Domenici for offering the legislation that we are to consider here today. I think as we review these pending bills it is important to keep in mind that our need is to do something. The only real question before us is which approach or which approaches will best serve us in this important area.

I am particularly gratified that one of the witnesses this morning representing the National League of Cities and Conference of Mayors is Mrs. Pamela Plumb of Portland, Maine. Mrs. Plumb is a member of the city council of the city of Portland and a former mayor of the city. She has been an outstanding civic and State leader for many years. She will, I think, provide this committee and the people of this country with some important valuable testimony.

Thank you, Mr. Chairman.

Senator **STAFFORD**. Thank you very much, Senator Mitchell.

We are honored that our colleague, Senator Dodd, is here to introduce Governor O'Neill.

## STATEMENT OF HON. CHRISTOPHER DODD, U.S. SENATOR FROM THE STATE OF CONNECTICUT

Senator Dodd. Thank you very much, Mr. Chairman. I will be very brief.

I am delighted to appear this morning with both my Governor, Governor Bill O'Neill of Connecticut, and also at the table with us this morning is our commissioner of the Connecticut Department of Transportation, Bill Burns.

Governor O'Neill this morning appears as a spokesperson for the National Governors Association on the issue of infrastructure and rebuilding our vital arteries in this country. But it is not just merely coincidental that in fact we in Connecticut, and our neighboring State of New York, have been through a very stressful situation over the last 3 weeks when what might otherwise have appeared as a minor problem, I suppose, obviously three deaths resulted in this disaster, but a small section of highway collapsed late one evening and, as a result of that, of course, we have seen a tremendous disruption of life along the Northeast corridor: Stress, strain on individual communities, tensions between two States. It should only dramatize, I think, to all of us how fragile in fact our society is, how dependent we are on these vital lines or connectors or arteries of our society.

The other day I heard a colleague of ours, Senator Inouye, talk about how the lights went out in Honolulu the other night for 4 or 5 hours which completely disrupted the city. People were caught in elevators, traffic lights were out. It was one generator, in effect. It becomes terribly dramatic, of course, but the point is we are so dependent today in modern life on these arteries or on these resources.

So the Governor, I am sure, will be delighted to address questions regarding what has happened in Connecticut, but his capacity here this morning is to appear on behalf of the National Governors Association.

I want to commend Senator Moynihan. He is absolutely correct in talking about this age-old problem. In fact, this word infrastructure now has taken on a life of its own. Unfortunately, it can become sort of camp to talk about these things. But the fact of the matter is we really do need to get underway or we are going to find ourselves in a more disastrous situation. What occurred in Connecticut will not be the exception, it will be the rule, and we will see it in one area of our life after another.

So I am delighted to have the Governor here with us this morning. I am sure the committee will listen to him carefully. I have been pleased to join with Senator Moynihan in, we think anyway, a good bill setting up that commission and then talking about a capital budget, which I have always felt we should do, and have a capital budget in this country to really focus our attention on our capital needs.

But at any rate, I am delighted to present Governor O'Neill and Commissioner Burns who is here with us as well. Thank you very much, Mr. Chairman.

Senator Stafford. Thank you very much, Senator Dodd.

Governor, we are honored you are here. We want you to feel welcome. We would be glad to hear your testimony.

## STATEMENT OF HON. WILLIAM A. O'NEILL, GOVERNOR, STATE OF CONNECTICUT, ON BEHALF OF THE NATIONAL GOVERNORS ASSOCIATION, ACCOMPANIED BY WILLIAM BURNS, COMMISSIONER, DEPARTMENT OF TRANSPORTATION

Governor O'NEILL. Thank you, Senator Stafford, members of the committee. Thank you, Senator Dodd, as well for the introduction.

On behalf of the National Governors Association and the citizens of Connecticut, I want to thank you for this opportunity to appear before you.

A few days ago a State Capitol correspondent from one of our Connecticut newspapers wrote a column about the subject of today's hearing. I would like to quote the first 10 lines for you as an example of the problem we in public service face. The column began this way:

> I heard the word infrastructure for the first time exactly one year ago. I remember it only because I was lounging in the sun on a beach in southern California, catching up on a week's worth of news with Time or Newsweek near the end of a tiring vacation. The colored pictures of dams, roads, bridges, sewer pipes and crumbling buildings the magazine ran with its opus helped me figure out what infrastructure meant. I never did read the cover story about the costly decay. It was boring. There's nothing juicy about replacing girders and shoring up sewer lines. And if it can't scream, vote, picket or give a donation, chances are those who make decisions about what's important will figure this stuff isn't. Maybe that changed last week.

What the columnist was referring to when he wrote that last line, "Maybe that changed last week," was the collapse of a 100-foot span of the Mianus River Bridge on Interstate Route 95 in Greenwich, Conn. That tragedy took three lives and injured three others seriously.

The cause of the collapse is under investigation by State and Federal authorities and private sector experts. It may turn out that this was related to the overall infrastructure problem or it may be that the cause was due to some unrelated factor. However, regardless of the cause, one fact is clear. This tragedy has served to focus statewide, regionwide, and yes, nationwide attention on the problems all of us know exist within our infrastructure.

In my State of Connecticut, I have appointed a Governor's task force on infrastructure comprised of members of the public and private sectors. I have directed it to determine the size and scope of the infrastructure problem in our State and to provide policy recommendations.

This task force has already come up with some alarming statistics. We have more than 4,300 miles of State roads in the State of Connecticut. More than 60 percent of those miles are rated as "less than good." We have nearly 15,000 miles of local roads; yet nearly 9 of every 10 of our cities and towns are deferring maintenance. Of the more than 3,400 bridges on our State road system, more than 60 percent are rated "less than good," and 300 of them are reported to be "severely deteriorated." We have 3,200 dams in Connecticut, and more than 1,100 of them are rated as "high hazards" if they fail. Nearly 500 of them are listed as in need of repair.

The task force is still working on cost estimates, but we already know that the figures, foe our small State alone, will reach the billions of dollars. Temporary repairs and permanent restoration of the Mianus River Bridge, just that single bridge, could reach $37 million.

There is more to this initial report, but the picture it paints is very clear.

What is also clear is that the State governments now pay, and will continue to pay, the largest share of the infrastructure bill. In fact, I am submitting a State-by-State breakdown which shows that in 1981, the States in total spent more than $24 billion on capital outlays.

Once again, using my State as an example, from January 1, 1975, through the first half of this year, my State awarded 451 highway construction projects with a total value of more than $573 million and 107 bridge projects with a total value of nearly $65 million. In addition to new construction, our maintenance operations and roadway improvement projects, from fiscal year 1976 through fiscal year 1982, totaled about $243 million, or an average of $35 million per year.

The specific issue before us today is financing for infrastructure needs in tight fiscal times. The Governors believe this is really a three-part issue: The need to expand use of capital planning and budgeting; revised management practices; and innovative financing strategies. In addition, the Governors feel strongly that the Congress should be very skeptical of any plan that fails to include all levels of government, with the States as the principal agents.

Although our focus is on initiatives at all levels of government, the Governors believe that the Federal Government will no doubt remain an important influence on public capital investment programs. This is because of the Federal Government's broad taxing powers, the fact that many kinds of public works are in the national interest, and the sharp differences in fiscal resources that are available to the various States and localities which mandate a continued Federal presence.

Specifically, the Governors recommend the following: that Federal public works programs promote a systematic assessment of infrastructure needs at the State and local levels; that maximum flexibility be provided to State and local governments in determining needs for capital improvements; that the States be assessed in developing various financial mechanisms in public works and assisted as well. This is because mechanisms like infrastructure banks, bond banks and loan guarantee programs can result in substantial savings and bring more cohesiveness to the program. And that capital planning and budgetary procedures be coordinated among Federal agencies and the States.

The current policy of the National Governors Association supports the general provisions of all three bills before the Congress, and our policy focuses on four areas: jobs, financing, capital budgeting, and a national inventory of infrastructure needs.

The Governors support the creation of emergency jobs through existing infrastructure programs with maximum local flexibility, including a block grant to the States, targeting, a timely commitment of funds, reduced or no matching, dedicated user fees, and the authority to transfer funds to meet State priorities more effectively.

The Governors support State-by-State financing mechanisms which include State banks or corporations that are specifically designed to deal with long-term capital needs.

In the area of capital budgeting, the States have long identified their appropriations for capital budgets. The Governors are not suggesting that the Federal capital spending be an off-budget category. Rather, we are proposing that the Federal budget clearly identify current and projected Federal funds for capital needs. At the very least, the administration should send to the Congress a specific analysis of current and proposed Federal contributions to the Nation's infrastructure needs.

The Governors support a national inventory of infrastructure needs. Any national inventory and assessment must be done on a State-by-State basis and include local needs if it is to be meaningful as a basis for congressional decisions.

Once again, gentlemen, I want to thank you for this opportunity to have appeared before you this morning. I do have, as Senator Dodd mentioned, Commissioner Burns of our department of transportation with me, whom you may want to direct specific questions to, pertaining to any of the situations within the State of Connecticut. I am prepared to respond as well. I want to thank you very much for your attention and for this opportunity.

Senator STAFFORD. Thank you very much, Governor O'Neill.

Before we go to questions, the chairman emeritus and ranking member of our committee has joined us. Senator Randolph, do you have any statement you wish to make or wish to place in the record at this point?

Senator RANDOLPH. Mr. Chairman, I am grateful that you would call attention to my participation with you and other members of the committee in listening to the testimony of the Governor. I think because the hearing moves forward and I want to help it move forward, I would ask unanimous consent that my statement be entered into the record at an appropriate place, possibly after your opening statement. But I will leave that to your judgment.

I would call attention, if I might, to the testimony of Governor O'Neill and to the references that he has made, and his words that have become in some instances, tragic as well as factual, statements about the condition which is not only reflective of your State, Governor, but throughout the country. That is the reason, in part, we did what we did in the so-called lameduck session when we were thinking in terms of rehabilitation of bridges like Mianus Bridge, which goes from not only Connecticut but into New York. Isn't that correct?

Senator MOYNIHAN. Yes, Senator.

Senator RANDOLPH. It was not a jobs bill per se, but there are thousands and thousands of people that are at work today trying to do the job that the Congress felt was necessary to be done. You were a strong supporter, as I understand it, of that effort; is that correct?

Governor O'NEILL. That is correct, sir.

Senator RANDOLPH. Thank you.

Senator **Stafford**. Thank you very much, Senator Randolph. Without objection, your statement will appear immediately following the chairman's at the opening of the hearing. (See p. 1.)

Senator **Randolph**. Thank you.

Senator **Stafford**. Knowing my colleagues will be asking questions on the infrastructure issue, is 5 minutes agreeable for the first round of questioning, since we have quite a long panel this morning?

I will devote my time to the specific problem that Connecticut experienced recently.

Let me ask you, Governor, you or your commissioner, these questions. Toll facilities are not eligible for Federal aid highway funds unless an agreement is entered into providing for a free facility once the bonds have been paid. It is the responsibility, as we understand it, of the toll authority to collect sufficient revenues to cover construction, maintenance, and contingencies.

My question is, Is this a prudent public policy or should it be changed?

Governor **O'Neill**. The Connecticut Turnpike, so-called, was constructed in the late fifties. We were ahead of the Nation, of course, in the interstate system. Consequently, it was the total State project to begin with. Now that road has to be paid for, and the toll stations are there to do exactly that. The bonds will not be redeemed until 1985 at the earliest. The State also has invested $56 million of its own moneys above the costs that the bonds are paying off, and those dollars have to be redeemed as well. The legislature has passed a bill removing those tolls from the locations starting in the year 1985 when these criteria are met.

That bill is on my desk at the present time. The only problem that I have is that if in fact Federal dollars are not forthcoming to maintain that road to a sufficient degree, then to remove the tolls perhaps would be foolhardy. I may have to veto that bill. However, I will have to make that decision today.

I have also been informed that we would only be eligible for about $10 million in Federal funding if the tolls were removed. I don't know how accurate that is. My commissioner of transportation is here with me today. But I will have to make that decision later on when I get back to Hartford on the removal. But consequently, nothing would begin at least until the bonds are begun to be paid off, which would not be until 1985 at the earliest.

Senator **Stafford**. Most turnpikes and toll authorities retain a certain amount of moneys in an escrow account for contingency purposes. My question is, Does Connecticut maintain such an account from revenues derived from the tolls collected on I-95, and do you believe such an account should be mandatory?

Governor **O'Neill**. We do not maintain an escrow account per se. The dollars above the maintenance costs, at the present time, in the bonds do go to the general fund of the State of Connecticut to be utilized as the general fund sees fit. However, we still are $56 million out of pocket per se in State moneys that went in to begin with which do have to be recouped before the tolls would be removed. That is the present situation.

Senator **Stafford**. I guess your answer is you do not maintain an escrow account.

Governor O'Neill. That is correct, to the best of my knowledge.

Senator Stafford. How much toll revenue does Connecticut receive each year from I-95 and how much is used for maintenance of the I-95 facilities and how much goes into the State's general fund?

Governor O'Neill. Commissioner Burns will respond to that.

Mr. Burns. Toll revenue from the Connecticut turnpike last fiscal year was approximately $56 or $57 million. The cost of toll collection and the cost of snow removal and normal maintenance, day-to-day maintenance, sweeping, joint repair and the like, was about $15 or $16 million.

Returned to the general fund that same fiscal year was approximately $26 million. The balance of the money as required by the bond indenture went into the various accounts that are required to pay off the bonds and for accelerated payment of the bonds.

Senator Stafford. Thank you.

How much will the State receive in insurance funds for the Mianus River Bridge and how will these funds be used?

Mr. Burns. The maximum amount that we can receive is $14 million. What the final adjusted figure will be I don't know. That is the maximum amount. The money for the bond indenture will be used for the direct payment for the cost of the repairs.

Senator Stafford. The Department of Transportation has estimated that the acrotemporary bridge will cost about half a million dollars, that temporary reinforcing would cost about $250,000,000, and that total replacement of all five spans of both bridges would cost something on the order of $5 to $10 million. Do you agree with these estimates?

Mr. Burns. I don't know where they came from, sir. I don't agree with them, no.

Senator Stafford. They are from the U.S. Department of Transportation.

Mr. Burns. No, sir. They don't coincide with our figures at all. It is our opinion, our best estimate right now, that the temporary repairs we are making, the acro, the unit itself was $500,000. We had a piece fabricated to camber, to give it a different alinement and to enable us to reconstruct while it was still in place. The temporary repair estimate, we have right now is between $10 and $12 million. This includes temporary ramps we are building to accommodate truck traffic, because engineers will not certify the temporary repairs we are building for vehicles weighing more than 8,000 pounds. In order to provide truck traffic and others with as effective and efficient a detour as possible, these temporary ramps will allow us to accommodate the legal load trucks with about 1½-mile detour beginning sometime next week.

No, those figures don't coincide with ours at all. Our cost estimate for the permanent reconstruction is very high. Our best estimate right now, in the absence of a completed design, is about $20 to $25 million.

Governor O'Neill. I think, if I may just interrupt for one second here, Commissioner Burns has pointed out to me perhaps so many times, because my question is why so much, that he perhaps forgot to point it out here. We have to keep this temporary span open to traffic while the overall new retrofit, if you will, is constructed. So it isn't just as simple as we are going to build a bridge across here now. We have to keep the original one going. I don't know if the Feds took that into consideration or not.

Senator Stafford. I see my time has run out, but I will ask one more question.

As of July 14, Connecticut has obligated only 36 percent of its available Federal aid highway funds for fiscal year 1983. Why has the State been so slow to use these funds?

Mr. Burns. Senator, our projects are ready to go. Our fiscal year ended on June 30. We obligated every penny of Federal funding that we had the State match for. Governor O'Neill recommended in his budget, and the general assembly approved, sufficient moneys commencing July 1 of this year that will provide us with a sufficient match to obligate every penny of Federal funding that was authorized. As a matter of fact, we will be in a position in August to request additional funds that might not be used by other States, as we did last year.

Senator Stafford. I thank you very much, Governor, and Commissioner.

Senator Randolph, do you have questions?

Senator Randolph. Yes, thank you. I will be very brief.

Governor, and Mr. Burns, is it?

Mr. Burns. Yes, sir.

Senator Randolph. Thank you very much. How long have you been in the position you hold?

Mr. Burns. Since October of 1981.

Senator Randolph. A rather challenging job, isn't it?

Mr. Burns. Yes, sir.

Senator Randolph. Thank you. Governor O'Neill, I want to be very direct. What is the status of deferred maintenance on the toll road and other Federal routes in Connecticut?

Governor O'Neill. I think we, like all other States probably, have been slow to maintain. I think we, like all other States, the Interstate Systems are now about 25 years of age, almost everywhere. They didn't need much maintenance until about now, and now suddenly they are all finding themselves in dire need of maintenance.

Specifically, since I have been Governor, which has been a short 2-year period, a little over 2 years now, 2½ years, we are spending more than we have in the past 10 years on overall highway expenditures within the State of Connecticut at any one time during the past 10 years, coupled with Federal dollars as well.

There is work that needs to be done. There is no question about that, Senator.

Senator Randolph. I am not critical when I ask the question.

Governor O'Neill. No, I know that.

Senator Randolph. I think that what is happening in your State is happening across America in reference to funding.

One of our substantial problems that is faced not only in Connecticut but elsewhere is this matter of deferred maintenance, as we have talked about it, at the State and the local governments. Do you have any feeling as to how we in the Congress, in cooperative efforts with the States, can step up the rehabilitation program that we began last year with the nickel tax bill? Although that is not a jobs program, there are thousands and thousands of people that are at work trying to do a job which had been deferred; isn't that correct?

Governor O'NEILL. That is true, Senator. I personally think you made great strides last year. No one certainly wants to talk about tax increases. No one wants to vote for tax increases, whether they are here in Washington or in Hartford or a local town in West Virginia or Connecticut where you sit on the city council. But there are certain things that have to be done.

Certainly in my own humble opinion the infrastructure of the United States of America, the thing that is the cohesive thing that holds this Nation together is of vital importance. These towns can't go it alone. The States can't go it alone. It has to be, in my opinion, a cooperative effort between the local, State, and Federal governments to put this thing back together. That is the way I view it as a Governor. I can't speak for the rest of them on that issue. I think they probably all feel the same way.

Senator RANDOLPH. I commend you for the statement because I believe it is correct and it needs to be repeated by Governors and State highway administrators and, frankly, by the people. I don't think people fully realize that the products of the mine and the factory and the field move to the consuming public over our road and bridge system. The city dweller who goes to the store and buys a product sometimes forgets that. So not only is that true, but those roads and bridges, properly maintained, and it is costly, enables the person in West Virginia, for example, to drive 100 miles a day to and from their work. We are a nation on wheels. We cannot forget that. Wings to a certain extent, yes, but we are a mobile country and we are a nation that cannot allow the system of highways and bridges to deteriorate as they have in this country.

We are at fault, and I want this on the record in large letters, because we haven't really come to grips and made an all-out frontal attack in this effort; rather, taking the timid steps over the past years. Thank you.

Senator STAFFORD. Thank you, Senator Randolph.

Senator Moynihan?

Senator MOYNIHAN. Yes, Mr. Chairman. Again I thank the Governor, and I know the collapse of the I–95 structure is a shock to Connecticut, to the Nation, but it sometimes takes that kind of event. You might want to know that we have been living here for the last 40 years with the more or less certain knowledge that the Capitol was going to fall down. And Governor O'Neill, Mr. Burns, won't mind if we blame it on the British. Then when they set fire to the Capitol, which in truth they did because we set fire to Toronto first they then hiked up the fire, there was a rainstorm, and there was what is called stone shock. For a long time it has been very clear this stone couldn't take it. But nobody would do a thing until the President of the United States came up here about 4 or 6 weeks ago, and he made a speech to a joint session, and while he was making the speech, or just after, a significant chunk of the west front of the Capitol fell down. Now, there wasn't much likelihood of it falling down on the President, but the coincidence was enough for us to say we really ought to do something about that. And we did.

I have a question for you, sir, in your representation of the Governors Association. That is as you know, the legislation that we are talking about here has in mind the basic notion of an inventory of work to be done and then a plan about how to get through it. We try to avoid the use of the word capital budget because in State financing capital budget usually refers to money borrowed as against the ongoing revenues, which is what we don't, in that sense, borrow money. We borrow it in another sense called the deficit. But in any event, we are thinking of an inventory and a work plan.

Would it be your judgment this could best be done by the Federal Government, a public improvements inventory, or that the Federal Government should assist the cities and States in conducting their own inventories and then assembling them as it were?

Second, would it be appropriate, even so, if this Federal arrangement makes sense, should we use Federal uniform criteria? Would you have a view on that? This is a specific legislative question we have to ask ourselves.

Governor O'NEILL. Yes. If I may back up just a bit, last February, long before this tragedy in Connecticut, I did form our own infrastructure task force in our State, which I mentioned in my remarks, to go out and survey the State of Connecticut. They are outside people. They are business people. They are corporate leaders. They are construction people, if you will, experts of all types. So we are trying to analyze our individual problems in the State of Connecticut. I think it could probably be best done at the local level.

Senator MOYNIHAN. By local you mean State?

Governor O'NEILL. State. However, without question of doubt, we have to have Federal Government involvement here because it is going to be more than just a single-pronged attack. I think the local cities, for example, know what their real problems are probably in your hometown or my hometown as far as infrastructure. The State then collects on it on a statewide basis and, indeed, the Federal Government working collectively with it, too, comes up with an overall program of what this Nation is facing. So I specifically believe that it should be a combination of all three.

I am not here to attempt to tell you how to draft legislation or what you should be doing in the Federal Congress. We will accept, I guess, anything. But I do think for the Nation's sake the Federal Government has to be deeply, deeply cranked into this whole situation.

Senator MOYNIHAN. If there were national criterion, that makes a certain sense, doesn't it? We try to have a national standard of what is a yard and what is a meter and what is a pound and what are bearing weights, and just a general national standard, which is what we are good at.

Governor O'NEILL. Well, if we are talking about national standards as far as specifics, perhaps for construction or rebuilding or whatever, that may make some sense. However, there probably are some national standards that the people in Florida and the people in New York need. It may not be the same national standard needed. I think you have to be careful of those kinds of things.

Senator MOYNIHAN. I guess I am thinking in terms of the kinds of engineering standards that Mr. Burns would be most familiar with. You know, what are acceptable tensile conditions and what are not acceptable.

Governor O'NEILL. Those should be standard. Those are the types of things we are talking about.

Senator MOYNIHAN. Thank you, Mr. Chairman. That was very helpful to our thinking.

Governor O'NEILL. Thank you.

Senator STAFFORD. Thank you, Senator Moynihan.

Senator Mitchell?

Senator MITCHELL. Thank you, Mr. Chairman.

Governor, I want to commend you on a very fine statement. I know that you are advised by the committee to limit your remarks in time, so I would like to ask two questions that perhaps you might want to submit in writing on behalf of the Governors Association, if you would do so, rather specifically, dealing with the precise legislation.

First, I would ask you to comment on the proposed distribution formula of funds to the States, commenting specifically on those proposed in the pending bills, and what you like or don't like about them, or any alternative suggestions that the Governors may have.

Second, I would ask you to comment on the proposed mechanisms for distribution of those funds. As you know, S. 532, Senator Domenici's bill, authorizes Federal funding of proposed State infrastructure banks, whereas S. 1330, authored by Senators Stafford and Randolph, would establish a cooperative capital investment program with the States.

If you would, in behalf of the Governors, perhaps after consultation, give us in as much detail as you can, and as appropriate under the circumstances, your comments on those particular aspects. Those are fairly important matters.

One of the things that we have found in the committee and in the Congress, understandably enough, is when we get to any of these programs, all Senators are concerned about the allocation formula. It seems to be a prominent part of the discussions that we have on such legislation. How the States feel about that particularly would be of great, great importance to us. I ask you to do that.

To the extent you wish to comment now, you are certainly welcome to. But I think you may want to take some time and give us that answer.

Governor O'NEILL. Senator, I would prefer to respond to you in writing because I would be responding basically for the Governors of all the States rather than just myself seated here before you today, and will do so. I am not sure that they do have a solid position 100 percent. But they will be polled by our organization and a response will be forthcoming to the committee.

Senator MITCHELL. The other thing I would ask about is the countercyclical provisions of S. 1330. This is a matter that we face continuously with the fluctuations of the business cycle and our attempts to mitigate the most adverse effects of the business cycle.

We are, of course, as you know, at the Federal level facing truly enormous deficits without any precedent in our peacetime history. We want to be sure any step we take does not have any adverse effect. So I would ask you also in behalf of the Governors if you would provide us with, in as much detail as you wish, your comments on that particular aspect of it, the countercyclical provisions of S. 1330, whether you favor them and what suggestions for improvement you may have for improvements with respect to those.

Governor O'NEILL. We will respond to you, Senator. (See p. 174.)

Senator MITCHELL. Thank you very much, Governor. Thank you, Commissioner Burns. Thank you, Mr. Chairman.

Senator STAFFORD. Thank you very much, Senator Mitchell.

Senator Burdick?

Senator BURDICK. Thank you, Mr. Chairman.

Welcome to the committee, Governor, Commissioner.

Governor O'NEILL. Thank you, Senator.

Senator BURDICK. The highway legislation that we have enacted in the last few years, in my opinion, has been a boon to the country, particularly my area, the heartland of the Nation. We have just extended and reenacted the Highway Act last year. Do you recommend any alteration or changes in the act at this time?

Governor O'NEILL. I am not going to be able to respond to that without the specifics in front of me, Senator Burdick. Perhaps the commissioner, Commissioner Burns, could make a response.

Mr. BURNS. From my perspective, and I think in the interest of our State, a change in the formula allocation of the 4R funding for the States. Connecticut is a corridor State, heavily traveled by trucks needing to get to New England and then to the South. The current formula penalizes States such as Connecticut, Pennsylvania, and about 11 other States in the country. We don't happen to think it is as fair an allocation.

The Conference of Highway Officials has supported such a change, at least 17 States have. We would appreciate your giving that consideration.

Senator BURDICK. Do you have a recommended formula?

Mr. BURNS. Yes, sir; which I will send to you.

Senator BURDICK. Do you want to send it to us in writing?

Mr. BURNS. We have done that previously, but I will resend it.

Senator BURDICK. I guess I haven't seen it.

Outside of money, is there anything else you would like to correct in the Highway Act?

Mr. BURNS. To the contrary, the Highway Act was of great assistance to the States. Connecticut has responded to it in the past 2 years. Since you just passed the Surface Transportation Act with significantly heavier appropriations than authorizations of its own in the two budgets Governor O'Neill has submitted, as indicated earlier, we have authorized and spent more money in the last 2 years than the previous 7 years collectively and than in any single year in the previous 10. So we are responding to the Federal initiative with money on the table to match every dollar that has been made available to us.

Senator BURDICK. Has the Governors Conference submitted any specific recommendations for amending or changing the Highway Act, Governor?

Governor O'NEILL. Not through me they have not, Senator. We are meeting, of course, the first of next month in Portland, Maine, and I am sure this will be one of the issues that will be discussed. This new catchword, phraseword, "infrastructure," I am sure that will be one of the major topics of discussion at the National Governors Conference.

Senator **Burdick**. We have to have more than just a phrase and a catchword. We want to know specifically what you want to recommend.

Governor **O'Neill**. I know that. You will have recommendations, sir.

Senator **Burdick**. We are looking forward to them. Thank you very much.

Governor **O'Neill**. Thank you, Senator.

Senator **Stafford**. Thank you, Senator Burdick.

As chairman, at this point I would like to introduce in the record a Congressional Research Service Report that we requested on public capital investment as a percentage of gross domestic product in the United States and selected foreign countries, 1960–80 (see p. 151), and reserve the right for all members, if there is no objection, to submit questions in writing to our witnesses this morning for their response. Would that be agreeable to you, Governor, and to your commissioner?

Governor **O'Neill**. Yes.

Senator **Stafford**. Thank you.

Senator Randolph.

Senator **Randolph**. Yes, 30 seconds, Mr. Chairman.

Governor and Commissioner Burns, as I understand it, the death toll on the Mianus Bridge was three. Is that correct?

Governor **O'Neill**. Yes.

Senator **Randolph**. Were there others who were injured?

Governor O'Neill. Three seriously injured people.

Senator **Randolph**. Three seriously injured. Only for the record, to my colleagues and for all who are in this room, I am remembering now when the Silver Bridge collapsed over the Ohio River at Point Pleasant, W. Va. This was at Thanksgiving time, 1967. Forty lives were lost and many others were injured. It is a continuing problem. I mention it only for the record. Thank you.

Senator **Stafford**. Are there any further questions?

If not, Governor, may we express to you and Commissioner Burns our heartfelt gratitude for your appearing here for yourself and for the Governors Conference.

Governor **O'Neill**. Thank you very much, Mr. Chairman. Mr. Chairman, Senators, thank you very much for your time and indulgence this morning.

Senator **Stafford**. The next witness will be Alice M. Rivlin, Director of the Congressional Budget Office.

Mrs. Rivlin, we are pleased and honored that you are here with us this morning. As you have indicated, this could be your last appearance in front of a committee of the U.S. Congress, specifically the U.S. Senate. For this committee, I want to express to you our personal and collective appreciation of your excellent service as Director of the Congressional Budget Office. Frankly, we hate to see you go.

As an aside, it has been suggested to the chairman that you may be headed for a relatively high experience. I better explain that, I guess. That is in the Himalayan Mountains. If that is what you are going to do next, we hope it will be as enjoyable as Hal Brayman tells me it is. We look forward to seeing you when you come back.

In the meantime, we will be delighted to hear your testimony this morning.

## STATEMENT OF HON. ALICE M. RIVLIN, DIRECTOR, CONGRESSIONAL BUDGET OFFICE, ACCOMPANIED BY DAVID BODDE, NATURAL RESOURCES DIVISION

Mrs. **Rivlin**. Thank you very much, Mr. Chairman. I am delighted to be here and enjoy having the opportunity to talk to this committee again after many rewarding experiences here. I have with me today David Bodde, who is head of our Natural Resources and Commerce Division.

I know you have a number of other witnesses, so let me summarize my testimony as briefly as I can.

Senator **Stafford**. Certainly. We should note that your importance to this committee is such that you have even attracted the chairman of the Budget Committee who is also a valuable member of this committee to be present for this hearing.

Senator **Domenici**. This is my last chance to see her off. I worked very diligently the last 2 weeks providing her successor, but only because she very much wanted that to happen. We did it on time, didn't we.

Mrs. **Rivlin**. You did a beautiful job. I very much appreciate it.

The infrastructure problem, as you noted, Mr. Chairman, is a very serious one, but the Congressional Budget Office believes it is a manageable one. You used the word "manageable" in your opening statement. We would agree with that.

### CURRENT INFRASTRUCTURE PROBLEMS AND COSTS

The Congressional Budget Office has prepared a report released in April in which we endeavored to look at the needs for seven major types of infrastructure systems. See Congressional Budget Office, Public Works Infrastructure: Policy Considerations for the 1980's [April 1983]. We found these needs, as nearly as we could assess them, to be major but manageable.

Our estimates for these seven types of infrastructure add up to about $53 billion a year for all levels of government over the period 1983 to 1990. That is roughly $11 billion more than we are spending now. But to put that number in perspective, it is around 1 percent of the gross national product. The Federal share of that bill under federal programs as they are currently structured would be about $28 billion, or about $4 billion more than we are spending now for those programs.

However, current programs are simply not well designed to meet the most urgent needs of the country for the next decade or so. They evolved over a long period in which we were putting into place the Nation's major infrastructure—such as national river control systems and the Interstate Highway System. Now the needs are not so much for putting the infrastructure in place as for keeping it in repair and adding to it projects that now are often of primarily local character rather than the national systems with which we have been dealing. So the programs really need to be redesigned to meet those needs.

The Congress has taken a major step within the last year in increasing the tax for gasoline and focusing more on repairs.

### FEDERAL APPROACHES TO IMPROVE PUBLIC WORKS INVESTMENT

We believe that there are basically three directions in which the Congress could move to refocus those programs on the most urgent needs. Those would be:

Raising user fees to help guide Federal spending toward the types and levels of services that are most in demand while also raising funds for needed investment;

Limiting the Federal role to infrastructure investments of clear national importance; and

Redirecting existing Federal aid to alter the current bias toward capital-intensive investment decisions.

If Federal programs were redesigned in those ways, it might be possible to meet these needs and spend less Federal money than we are now spending—roughly say $20 billion a year instead of the current $24 billion.

First, on user fees. Though private users of many infrastructure facilities now pay some fees, most such fees are set far below the levels needed to recover public costs. The resulting subsidies stimulate demand and lead to exaggerated perceptions of the need for services. A good example is the inland waterway system, which the Army Corps of Engineers constructs and operates.

At present, users repay only about 6 percent of the system's cost. This results in a subsidy from the general taxpayer of almost 30 percent of the total cost of moving freight by inland barge—many times the value of Federal subsidies to trucks and railroads. Such a large subsidy encourages demand for new capacity and invites further subsidized construction.

Continuing a shift begun under the 1978 Inland Waterway Revenue Act, the administration recently proposed user fees that would recover 70 percent of the costs of building and operating the inland waterway system. For new construction, fees would be levied on a segment-by-segment basis. This would help assure that only facilities expected to have adequate traffic were built. Operating costs would be covered by systemwide charges, which would assure that all segments now operating remained open.

Financing backed by user fees can also be critical at the start of new projects. With severe budgetary pressures facing all levels of government, the absence of such financing can sometimes block needed investment.

For example, new deep-draft ports appear likely to provide cost savings for coal exports. Yet dredging has not proceeded because of disagreement among the Congress, the administration, and the port operators regarding the size and type of user fees best suited to finance this work.

Second, on limiting the Federal role to the most nationally needed projects. When a rationale no longer exists for Federal involvement in local projects, Federal funding can distort economic choices and divert funds from more pressing national needs. Highways offer a good example.

Originally, the financial advantage to States through 90 percent Federal matching shares for Interstate highway construction assured the Interstate System's completion. With nearly all nationally important segments built, that high match now encourages States to build projects of primarily local concern—projects they might not undertake if more State money had to be spent for them.

Today States appear better able than in the past to meet the financial challenges that would come with greater responsibility. State and local financing mechanisms now in common use—earmarked revenues, local user fees, State bond issues, and State bond guarantees—can generate significant sums. Over the past 3 years, for example, the States issued almost $8 billion in general obligation and revenue bonds for water resources alone. With access to these financial instruments, States and localities may no longer require substantial Federal aid to finance large, up-front capital investments.

The long-run economic benefits of limiting the Federal role would have to be balanced against the transition costs borne by State economies. Moving too quickly toward greater State responsibility could make this transition more difficult. Some States could be constrained by depressed economic conditions and would either require assistance or be forced to forego public works spending until conditions improved.

Two types of States would be at a relative disadvantage: those that have relied most heavily on Federal subsidies, and those with less capacity to raise development capital. To avoid dislocations, even in more prosperous States, the Federal Government might reduce its support for local projects gradually, allowing States and localities time to explore locally available options. In aviation and highways, for example, the Federal Government might consider an interim policy of either turning back user fee revenues to States or reducing Federal user fees to allow States and localities to phase in their own higher taxes.

The Federal Government could also ease this transition by helping the States set up self-sustaining financing institutions. State infrastructure banks, for example, could be capitalized initially with Federal seed money, an approach proposed in the Public Investment Incentive Act of 1983. Alternatively, a combination of Federal infrastructure bloc grants and State matching funds could be used, as is suggested in the Public Capital Investment Act of 1983. States or localities would make investment decisions, according to their own priorities, from a revolving loan fund. Such a fund would be replenished with user fee revenues or other payments from local governments, insuring a future source of public infrastructure capital.

And third, on redirecting Federal assistance. Federal aid to some types of public works projects could be made more cost effective if the current Federal match on capital grants were reduced or if more Federal funds could be used for purposes other than new construction. In public transit, for example, high Federal capital grants have encouraged many cities to start new capital-intensive systems, particularly rail. At the same time, local financial constraints have forced other transit authorities to neglect the worsening physical condition of older-generation rail systems.

Not enough of the $3.7 billion a year now available for Federal capital grants goes toward repair and rehabilitation in the most transit-dependent cities, although the overall sum appears within range of estimated transit needs through 1990.

In summary, Mr. Chairman, the infrastructure problem, as you pointed out at the beginning, is a manageable one. The current level of Federal infrastructure spending appears within reach of the Nation's investment needs in the areas included in CBO's study.

More important, however, are the significant opportunities available for channeling Federal spending into more cost effective investments. Greater reliance on user fees, greater State and local responsibilities, and redirected Federal aid can be part of the transition already underway to promote more effective public works investment at any level of spending.

Thank you, Mr. Chairman.

Senator **Stafford**. Thank you very much, Dr. Rivlin.

At this point in time, the Chair, without objection, will place in the record by reference the "Public Works Infrastructure: Policy Considerations for the 1980's," which is the CBO study that we have both referred to.

Dr. Rivlin, the points you have made that would seem to be most important to this Senator are these. You believe we can meet our infrastructure needs by reorganizing the Federal approach, by more user charges, by a more careful definition of the Federal role, and by directing more Federal dollars into repair and renovation rather than new capital-intensive ventures. Is that about it?

Mrs. **Rivlin**. That is right, Mr. Chairman.

Senator **Stafford**. If Federal programs might be designed as you suggest, what is likely, in your judgment, to be the cost impact on States and local elements of our Government?

Mrs. **Rivlin**. Our estimates of the total spending under redirected programs are given in table I of my testimony, but I guess we only show the federal system there. There would need to be increased State and local spending, and that might put hardships on some State and local communities until they got organized to do it. We believe that some of that could come from higher user fees at the local level, as, for instance, in local water systems, where the charges really are extremely low and encourage the overconsumption of water.

We do need repair in those systems, but it seems to us that the money can come from higher user charges. States would experience some difficulties in changing over to a higher State and local role; some of these difficulties, we believe could be mitigated by State or Federal infrastructure banks.

Senator **Stafford**. Thank you very much, Doctor. I think that completes the questions I have in mind.

Senator Randolph?

Senator **Randolph**. Dr. Rivlin, how long have you been on the job?

Mrs. **Rivlin**. I have been on the job for 8½ years, Senator.

Senator **Randolph**. What now specifically are you to go into, other than the job you have had?

Mrs. **Rivlin**. I am going to be director of economic studies at the Brookings Institution.

Senator **Randolph**. Brookings does have an indirect, and sometimes almost direct input, on policymaking of this and other types of projects that are initiated or carried forward by the Federal Government; is that correct?

Mrs. **Rivlin**. Well, Brookings exists to study public problems, primarily national problems, and makes its work available to the Congress and to the public.

Senator **Randolph**. That is true. I think Congress often has relied, and understandably, on the counsel of people that have worked under the umbrella of the Brookings Institution. I have watched that, I have participated in it from time to time. I am delighted that Brookings will have your talents. I speak that in a compliment which is meant to be and is very sincere.

I would want you, if you would, for the record, I have been a long time on this committee, and through the years in the House and the Senate. It is not important that the record show, but only to make the point, I came here in March of 1933 when we had a tremendous upsurge, as you know, in certain types of programs where we placed people at work under the leadership of the Federal Government. From time to time, in not so much administrations, but in periods of our country's development, there seems to me to be those years when special emphasis, heavy emphasis, needed emphasis, comes in the form of the subject matter that we are discussing here today.

Would you agree that when these times face us, it is folly to look back and talk about what we should have done, but there is need to do what we did in 1933, for example, or in other periods? When these situations arise in our country, sometimes with a measured but often a sudden impact on the economy, and people are unemployed, is there some recommendation that you have that gives us a backlog so that we don't have to swing it into operation as quickly as we might?

Mrs. **Rivlin**. Certainly, with respect to public works, we have historically used public works to mitigate the impact of unemployment, often very effectively, sometimes too slowly, as you note. If you are going through the whole planning stage of a public works project, it takes a long time to get it planned well. It speeds up the process if the planning has already been done and if projects are ready to go when needed.

Senator **Randolph**. Mr. Chairman, I could have many questions at this time, which I will perhaps submit in writing. The reason I do that is because we have the chairman of the Budget Committee here with us. I would rather defer to him now for questioning.

Senator **Stafford**. The Chair earlier reserved the right to all members to submit questions to witnesses in writing. The Chair has a question that will be submitted in that manner to this witness also. But if the chairman of the Budget Committee is pressed for time, fine. If he isn't, the Chair would recognize Senator Mitchell.

Senator DOMENICI. No. I am going to be here until we vote on the transportation bill. I think that is up next on appropriations.

Senator RANDOLPH. What time would that be?

Senator DOMENICI. I think they said they would take a half hour on it. I think that will be about noon.

Senator MITCHELL. I will be glad to defer.

Senator DOMENICI. No. You go ahead, Senator.

Senator MITCHELL. I have only a few questions.

First, Dr. Rivlin, I want to join the chairman and ranking member, and I am sure all members of this committee, and indeed all Members of the Senate, in thanking you for your efforts in what has been a very difficult and demanding job, and I might say your superb efforts, have been very much appreciated by us. I am one of many, not all, who hate to see you go but wish you the very best in your new position.

Mrs. RIVLIN. Thank you very much. I really appreciate that.

Senator MITCHELL. You touched briefly in your statement on the alternative approaches of S. 532 and S. 1330 of the mechanisms to provide assistance to the States. I would ask if you would at a later time in writing provide us with a more detailed analysis of those alternative approaches, the advantages and disadvantages of each as you see them.

I think there is a growing consensus that we will have to take some action of this type. Here the committee is presented with two different methods of accomplishing that. It would be helpful to us to have your evaluations of the advantages and disadvantages of each of those as we move toward that judgment.

Mrs. RIVLIN. We would be happy to do that

[The information requested follows:]

Both of these bills—S. 532 (the Public Investment Incentive Act of 1983) and S. 1330 (the Public Capital Investment Act of 1983)—would provide substantial funds for investment in infrastructure. To provide seed money to finance state infrastructure banks, S. 532 would authorize a total of $10 billion over the next three years—$5 billion in 1984, $3 billion in 1985, and $2 billion in 1986. S. 1330 would authorize $50 billion over ten years ($5 billion a year) for block grants to help start state infrastructure funds. Both proposals would require the states to match federal appropriations dollar-for-dollar.

State infrastructure banks, as proposed by S. 532, represent a significant change from current financing practices. These banks would finance locally selected projects with loans that would be repaid by user fees. This appears to be a positive change from present practice for two reasons. First, user fees would help promote local selection of cost-effective projects, something that does not always occur under the current system of federal categorical grants. Second, a revolving loan fund would reduce future demands on appropriations from general revenues and would ensure a source of future public infrastructure capital.

A major drawback to this approach is that, since it is new, it might take some time before a majority of the states adjusted their procedures to take advantage of it. In addition, if states used other federal categorical grant monies to help capitalize these banks, local opposition could result. In New Jersey, for example, the state would like to use project-specific grants for sewage treatment to help capitalize a state infrastructure bank. These grants would then be reoffered as loans to local jurisdictions. Those localities that stand to lose their categorical grants are now trying to block the proposal because of increased local fees.

S. 1330 takes a broader approach in the sense that federal block grants could be repackaged as state grants or loans to localities. Federal block grants would encourage the states to make trade offs among local needs. But S. 1330 is less specific on the appropriate mix of state grants and loans, as well as on the requirement for repayment through user fees. Thus, two facets of S. 532—promotion of cost-effective projects and a self-sustaining fund for future investment—are not specified under S. 1330.

Both bills would amend the Clean Water Act so that states could repackage as loans their federal wastewater treatment grants (under section 205 of the Act). This would increase the leverage of federal funds in meeting additional state wastewater treatment needs. Local user fees, however, would increase under such a plan.

Senator MITCHELL. The one area that I don't want to say troubled me but concerned me is you made reference to the mechanisms available to the States. I can't tell whether your references are improving or not. You cited four, one of which you cited as earmarked revenues. You also suggested that we, at the Federal level, should be moving more toward user fees. Although they are independent concepts, they generally are combined. That is, where dedicated revenues exist, they generally are related to some form of user fee, as a matter of budget policy or budget philosophy. Do you think it is a good thing to be moving toward more and more dedicated revenues in those areas of service provided at the Federal level?

Mrs. RIVLIN. I actually think that dedicated revenues are, or earmarked taxes, are a slightly different concept from user fees. They have advantages and disadvantages. User fees do serve both to put the burden of paying for a project on those who get the benefits, and to make sure that there really are benefits before the project is undertaken. This approach provides a useful guide because, if there aren't going to be user fee revenues coming in, then you don't do the project. So it often sorts out the economic from the uneconomic project. That seems to me sensible.

But earmarked taxes do have a disadvantage in that they can tie up much of your revenue, tie the hands of the legislative body in making decisions about how to use it. That can be undesirable.

I think if it is a dedicated revenue, which is not a user fee and not really related to the use of the service, it should be viewed with some caution.

Senator MITCHELL. But that is what concerns me, because as I am sure you are aware, although they are independent concepts, as I stated in my question, they inevitably come together. And the willingness of any specific category of users to subject themselves to user fees is ordinarily accompanied by a demand that the second part of the bargain be a dedicated revenue which would go for the benefit of that.

I have at least been aware of the argument that that is not good from an overall budget standpoint, that the more you have specific categories of dedicated revenues, the less valuable is the overall budget process and the more difficult it becomes to establish priorities at a meaningful national level; or, indeed, if it is a State we are talking about, at a State level.

I am wondering whether you are not concerned that the overall effect of your suggestions, to encourage greater user fees, understandably having a valuable objective, may not lead to results in the context I have just described that are undesirable and not worth the benefits achieved.

Mrs. RIVLIN. I think if the Congress doesn't take those cautions into consideration, they could. There certainly was a time when revenue was pouring into the highway trust fund at high levels—

higher than we probably really needed for highways. Yet it was difficult to use it for anything else. But there was a moment when a lot of revenue was tied up in highways.

We are not in that situation now, because the need for highway spending has risen and the flow of revenue has fallen off some, as people drove less or bought less gasoline. But that certainly was a problem at the time.

Senator MITCHELL. And it could recur.

Mrs. RIVLIN. It could recur. You raise a very valid concern. I think that, in pointing out the advantages of user fees, I would urge the Congress to take into consideration the problem you raise and not to raise the user fees beyond the reasonable expectation of need for that service.

Senator MITCHELL. I guess what you are telling us is to impose user fees, but don't dedicate the revenues to the extent that we can do that.

Mrs. RIVLIN. Don't overdo it.

Senator MITCHELL. Thank you very much, Mr. Chairman.

Senator STAFFORD. Thank you very much, Senator Mitchell.

Senator Domenici?

Senator DOMENICI. Thank you, Mr. Chairman.

Dr. Rivlin, it seems to me that your analysis of what we ought to do should be followed up with an evaluation that could be called why we can't do it.

I am impressed with the notion that we ought to redesign the programs. I am also very impressed with the idea that they ought to be very flexible, which is sort of one of the qualities of a national infrastructure bank with Federal seed money. But it seems to me one of the reasons we can't do this is because public works infrastructure in its broadest sense is spread all over the Congress. We have maybe half the jurisdiction. Certainly we produce a bill in mass transit somewhere else. We have a piece of it. Your user fee notion definitely would have to be related to the concept of—just taking inland waterways, this committee has jurisdiction to determine how quickly we repair them or rebuild them, how much we pay to dredge them. But this committee has no jurisdiction when it comes to fees. Airports, obviously that is a major new program, newly funded. with new taxes. This committee has nothing to do with that. I know nothing about the House. My guess would be, Mr. Chairman, that it is probably four committees, five committees over there. Is that about right?

Senator STAFFORD. Yes.

Senator DOMENICI. And each is set on its own course at this stage of congressional evolution.

I wonder if you think it might be a valuable exercise to, first—and if the CBO could do it—evaluate jurisdiction for infrastructure as between all of the committees and have some kind of a comprehensive report as to where the jurisdiction lies. Do you think that would be helpful to anyone?

Mrs. RIVLIN. We would certainly be happy to do that. I think, as you suspect, it would certainly reveal that the jurisdiction is complicated and it is divided in many ways. I don't think we would presume to advise you how to reorganize the Congress.

Senator DOMENICI. I understand. If I ask the Chair to do that, I certainly would recognize you are not expected, nor is your successor, to make recommendations in an area like that. But I think it would be rather obvious.

Second, I wonder if an appropriate approach may be some sort of bicameral study group, made up of members from four or five committees, starting with some goals and making some overall recommendations as to how to renovate the structure of the National Government. Then you wouldn't have to necessarily impose on the jurisdiction. Ultimately you would try to carry that out, if it was desirable, through the committees. At this point it seems we will never get there is what I am saying. Let me give you an example.

The water and sewer program, I guess you know New Jersey would like to block grant that into a bank. I don't know that we would get that through the Congress. This committee only has half the jurisdiction, doesn't it?

Senator STAFFORD. Yes.

Senator DOMENICI. If we were to try to put the water and sewer into an infrastructure bank, doesn't the bank have to go to the Banking Committee?

Senator STAFFORD. I think we have full jurisdiction.

Senator DOMENICI. We would?

Senator STAFFORD. Yes.

Senator DOMENICI. How about in the House?

Senator STAFFORD. I am not sure what the situation is there, frankly.

Senator DOMENICI. Well, it seems to me in order to get there, we really are going to have to have some congressional type of blueprints. If we expect four or five committees to redesign the program, I don't think it will happen.

Let me ask you one other question. In reference to user fees, I think Senator Mitchell asked a good question. The principal thrust of your example is inland waterways where about 6 percent of the cost is deferred by user fees. You said the administration recommended 70. Whether 70 is right or not, user fees imposition on the inland waterways does not bring the problem that Senator Mitchell addressed.

Mrs. RIVLIN. No. That is absolutely right. We are not in danger of having an oversupply of user fees in that area.

Senator DOMENICI. That has an economic base to it, too, in that you suggest that an appropriate level of user fees would be a marketplace way of building what you need and not building what people want; is that correct?

Mrs. RIVLIN. That is right. It would supply a sort of market test to decisions about whether to build new inland waterways.

Senator DOMENICI. With reference to more repair and maintenance and less building, I am impressed with that. The falling down of that bridge up in the Northeast is an obvious example. We built brandnew freeways all over, but obviously we weren't very careful about testing the maintenance and capacity of existing ones. Now we have to go in and spend $35 million, I think, to fix that bridge. But it is everywhere.

On the other hand, there are still major growth areas in the country that need more than maintenance, that do need capital improvements in terms of the infrastructure that is newly needed. That is true, is it not?

Mrs. RIVLIN. Yes, it is. There are parts of the country that are growing. I think one example is mass transit. As I indicated in the statement, it seems to us anyway that we are not spending enough of the mass transit funds on repairing the existing systems, but there are cities that feel they need new mass transit systems that don't have them. They tend to be in the growing parts of the country and to be in your part of the country.

Senator DOMENICI. One of the problems with the administration's approach to mass transit is their emphasis on capital improvements and deemphasis on maintenance. It is causing a skewing in that people are applying for things they don't need and the maintenance is dying on the vine. It seems to me that is a glaring example of where flexibility would be far better than setting the two categories, and you probably would end up spending less money.

Have you looked at that one? Is there not a potential for people wanting capital improvements money because it is there and we could better use more maintenance money?

Mrs. RIVLIN. Yes. Oh, I think definitely.

Senator DOMENICI. In terms of redesigning programs, you gave a couple of examples in a general sense. In your study, did you look at any of the myriad of programs, and do you have suggestions of how programmatically we might consolidate or redesign or have you only done it in a general sense?

Mrs. RIVLIN. No. The study goes through program by program and has some thoughts about that.

Senator DOMENICI. Some thoughts about it?

Mrs. RIVLIN. Yes.

Senator DOMENICI. In the process of looking at that, was anything looked at in terms of consolidating the programs and thus making them more flexible?

Mrs. RIVLIN. Yes. We didn't look at major consolidations across types of infrastructure. It seemed, though, that might be a possibility. But we have still structured the study in terms of highways, inland waterways, and so forth, as a separate program.

Senator DOMENICI. My last question. Have you had a chance to look at New Jersey's infrastructure bank as a disinterested expert group to see if it really has a chance of working?

Mrs. RIVLIN. I am not a real expert on New Jersey, but it seems like a basically good idea to do that.

Senator DOMENICI. Mr. Chairman, do we know anything further from them as to whether they are putting theirs together in a way they can fund it?

Senator STAFFORD. We don't have any further information on that, I would say, Senator.

Senator DOMENICI. Thank you very much, Mr. Chairman.

Senator STAFFORD. Thank you very much, Senator.

Thank you very much, Mrs. Rivlin. Again, all of our best wishes. We are glad you are going to be at Brookings where, if we need your expertise, we hope you will be available to us.

Mrs. RIVLIN. Delighted to, Mr. Chairman.

Senator STAFFORD. Thank you.

The next witness will be the Honorable Pamela Plumb, councilor of the city of Portland, Maine, who will be speaking for herself as a former mayor of the city, as councilor, and for the National League of Cities and U.S. Conference of Mayors.

Mrs. Plumb, we are very glad you are here.

Senator Mitchell, would you care to say anything at the outset before Mrs. Plumb speaks?

Senator **Mitchell**. Thank you, Mr. Chairman. I commented earlier on Mrs. Plumb and will, at the risk of repetition, say that we are very pleased and honored to have her here.

I have had the pleasure of knowing Mrs. Plumb for several years. She is a friend personally and one of the most outstanding and able public servants in our State of Maine. She has served as a member of the Portland City Council for over 4 years, and is in her second term. Earlier, during her first term, she served as mayor of Portland.

She has been an outspoken advocate on behalf of the cities of this country, both in the area of public facilities and in housing, and I am very pleased and honored that she is able to be with us here today.

Senator **Stafford**. Thank you very much, Senator.

Senator **Mitchell**. Not only that, Mr. Chairman, but she is a terrific tennis player.

Senator **Stafford**. With all of those recommendations, we will hear you in just a second, Mrs. Plumb. First I think that the Chair will place in the record, by reference, Capital Budgeting and Infrastructure in American Cities, an initial assessment based on a joint survey conducted by the National League of Cities and the U.S. Conference of Mayors.

Now, Mrs. Plumb, we would be very happy to hear your statement. If you care to summarize it, it will be placed in the record in full, but we will leave it up to you as to how you wish to proceed.

## STATEMENT OF HON. PAMELA PLUMB, COUNCILOR, CITY OF PORTLAND, MAINE, ON BEHALF OF THE NATIONAL LEAGUE OF CITIES AND U.S. CONFERENCE OF MAYORS

Mrs. **Plumb**. Thank you very much, Mr. Chairman.

Thank you very much, Senator Mitchell, for your kind introduction.

I am Pamela Plumb. As has been pointed out, I am councilor to the city of Portland, Maine. I am very pleased to have an opportunity to appear before you today as a representative of both the National League of Cities, where I am currently serving as a vice chairman of the community and economic development committee, and as a member of the infrastructure task force, and representing the U.S. Conference of Mayors, where I was a member of the transportation committee during the year which I served as mayor of our city in 1980 to 1981.

I am here this morning to present to you the results of the joint survey on capital budgeting and infrastructure which was conducted by the National League of Cities and U.S. Conference of Mayors.

A total of 1,400 cities were surveyed from December to February of 1983, and a total of 809 responses were received for inclusion in this presentation. I appreciate your placing the entire report in the record.

I would like to take the opportunity to place a more lengthy summary and analysis of the results into the record as well.

Senator STAFFORD. Without objection, we will do that.

Mrs. PLUMB. Thank you very much. I appreciate that. What I would simply like to do this morning is give instead a very brief summary of this particular report and add to that as well a few comments on how those results in fact are illustrated by activities in our own community.

To give some of you an idea of our community, since you may not know it quite as well as Senator Mitchell does, we are a city of 62,000 people. We sit in a metropolitan area of about 200,000. We were founded in 1632 as a deepwater port. Our infrastructure, fortunately, is not 351 years old, as is our community, but much of it, I must tell you, dates to the 19th century.

Our financial base, as in most northeastern communities, is primarily the property tax. We have a capital budget planning process. We plan for 5 years at a time in our capital planning process. The whole plan is reviewed and updated each year as each yearly segment is in fact passed and approved by the city council.

For this year our capital improvement program calls for $3,330,000 in streets, sidewalks, storm sewers, parks and municipal buildings, schools, transportation facilities, plus another $600,000 in additional sewer work. We can now only afford to bond 80 percent of what we require in bonding because of the increased costs to us of that bonding.

Portland was only one of the 809 respondents in this survey. I would like to share with you some of the major findings in this important research.

Over 90 percent of the cities surveyed have in fact capital budgeting processes similar to ours, approved by local city councils and affecting all city departments. Almost 84 percent of the cities use public hearings or special advisory boards to ascertain public opinion. We use our planning board for that purpose.

This survey in fact validates the concept that infrastructure is quite literally the building blocks from which we construct a healthy business climate. Cities naturally cited protection of public health and safety and provision of essential services as the main reasons for public facilities work. But economic development was the third most cited reason for capital development projects. Economic development is taken into account by over 60 percent of the cities when planning their capital improvements budgets.

In Portland, for example, in our capital budget plan, we have an entire section devoted to economic development. It varies from funding part of the fish pier to street work for industrial parks or commercial streets on our waterfront area.

According to the survey, cities make an important distinction in their capital budgeting process. Local taxes are used primarily to finance maintenance and debt is primarily used to finance rehabilitation, expansion, and new construction. It is also clear that local governments feel that all levels of government have a role in financing improvements to local capital budgeting processes.

The survey asked cities to choose, from among 19 types of facilities, the 3 that were the highest priorities for capital expenditures in their communities. When these three top priorities for all of their cities were combined, the category of streets and roads is definitely the priority that is most often selected.

Facility types most frequently selected as priorities by the respondents are as follows: streets and roads, the priority count being 518; storm water collection, 309; waste water treatment, 228; sewage collection, 216; public buildings, 197; and water distribution, 152.

Identification of these priorities is critical to making a reasonable national program, but there are differences among cities as regards their priorities and their ability to finance projects and the condition of their capital facilities. This strongly supports the view that any national effort in this area should rely primarily on local planning and local priorities within broad national purposes. Let me give you a local example.

Seventy-eight percent of the respondents answered that in fact the condition of docks, wharves and ports was not relevant to their communities. That looks like an overwhelming message that says that is not an issue in dealing with infrastructure problems in communities across the country.

I need to point out it is a major issue to our community and one of our highest priorities as identified in our capital budgeting process. For us, whether it means shoring up the pilings of the city-owned Barry Terminal or whether it means building a new facility for the Island Ferry Transportation System or building a fish pier for the fishing industry or building for sewage disposal or rebuilding the commercial street, which is our waterfront street, each of these is a higher priority in our community, different perhaps from the needs and priorities in other communities across the country.

We have had, by the way, or will need Federal assistance for four out of these five projects that I mentioned.

Now let's move on to the condition of public facilities and the ability to finance the work necessary. Our survey points out the many differences among the infrastructure needs of cities, but it also points out a universal condition. There is no region, no size or type of city that is free from pressing infrastructure problems at this time.

Now the typical vision I think that comes to mind when we talk about infrastructure problems is one that is close to our particular situation, the vision of an aging 19th century industrial center from the Northeast with disintegrating roads and bridges and sewer systems. However, whether it is our need to reconstruct our 19th-century wooden box sewerlines and streets that are asphalt over ballast block from the 18th century or whether it is the southwest community's need to provide water supplies and to deal with stormwater runoff in rapidly developing and growing areas, as was mentioned earlier by Senator Domenici, in each case the need is real and pressing and costly.

The survey asked respondents to characterize the physical condition of the 19 types of public facilities. Table 3 on page 24 of the report before you provides a complete display of these survey results.

For 10 of the types, at least 30 percent of the respondents said that they needed major work. These 10 are streets and roads, sidewalks and curbs, stormwater collection and drainage, sewer collection, bridges, overpasses and viaducts, public buildings, traffic control equipment, parks and recreation facilities, wastewater treatment, and water distribution.

The variety of responses among different types of cities underlines the fact that local infrastructure needs and priorities vary widely among the cities.

The survey also asked cities to characterize their ability to finance necessary work on each of the 19 facilities mentioned. While the survey found that cities vary greatly in their ability to finance infrastructure needs, another common fact emerged. Local tax bases, fee and debt financing mechanisms, are not enough. There are needs that are not being met and cannot be met using local resources alone. Some State and Federal assistance is required if some important infrastructure needs are to be met.

For eight of the facility types, at least 30 percent of the respondents said they required some degree of State or Federal aid to finance the necessary work. These categories are streets and roads, wastewater treatment, bridges, overpasses, viaducts, parks and recreational facilities, stormwater collection and drainage, sewage collection, traffic control equipment, sidewalks and curbs. The table on page 36 of the report provides detailed information about the ability to finance all of these types of activities.

The variety of responses among different types of cities underlines another major finding of the survey. The ability to finance necessary infrastructure work again varies widely from one city to another. Let me give you again a thumbnail sketch of Portland, Maine's ability to finance infrastructure needs.

Take a look at our financial condition. First of all, we are a city which is fortunate to be undergoing an economic revitalization right now. Anyone who has had an opportunity to visit our downtown area in the last couple of years and compare it to something 30 years ago, or even 20 years ago, would see a dramatic and positive difference. Nonetheless, our community is entirely dependent upon property taxes as our only form of income. Our only other types of support is intergovernmental funds and the fees we already charge for various services.

Over the last 3 years, we have cut our work force in the city of Portland by 15 percent. We have had to cut our work force by 15 percent because our return in revenues from the property tax rises at a rate of about 1 percent, and in an inflationary period, which we have seen over the last couple years, we then have a gap to make up of near 9 percent. Although that gap is diminishing, it has taken an enormous toll on our community's financial resources. We continue to maintain our capital program, but we have very little room for dramatic expansion in our capital program.

On our waterfront, for example, I mentioned four out of the five projects I listed require State or Federal assistance or both. The fish pier has been perhaps our most dramatic example where we have needed and received significant funding from the Federal Government and State bonding assistance, in addition to local bonding dollars that went into the project.

We have another little project to deal with to illustrate the need for assistance outside of local resources. We have a bridge also, a bridge that connects Portland and South Portland. South Portland is a community of 30,000 people. That bridge was built in about 1918 for $1 million. It is known as the Million Dollar Bridge. That bridge is courting disaster currently. We hope we will never be added to the statistics that have been cited in this committee here today, both for Connecticut and for West Virginia.

However, that bridge must be replaced. We are looking now at replacement possibilities for that bridge. We are looking at a potential price tag of $100 million in order to be able to replace that bridge with an adequate bridge. For a community of 62,000 people, plus a community of 30,000 people on the other side of the bridge, there is no way that our local community, no matter what toll we might put on that bridge, is going to be able to support that. Clearly it is going to require substantial assistance from both the Federal and State level.

An example like our bridge, which is so dramatic, makes the problem look too vast to deal with. Many of the statistics we have heard bandied around, which has brought infrastructure into the forefront of public opinion over the last year, makes one think it is not doable. I tend to, however, concur with many of the people who have spoken today, that we have a problem, but we have a problem that is manageable. Will it take too long for any kind of assistance, in particular Federal assistance, to have an impact? Will Federal assistance simply fatten municipal payrolls? We hear that all the time as a problem of providing assistance to local municipalities.

I think this survey provides some interesting and in fact encouraging results to deal with those questions. As I said before, the cities were asked to choose their three priorities from among the 19 facility types provided in the survey. We also asked them to estimate within a range how much the capital costs of their priorities would be.

When the responses for all the priorities were added together, without ranking them by first, second or third, the most frequent choice by far was in the $1 million to $5 million category. This information does not permit any real analysis of a total bottom line figure of the needs. This report doesn't pretend to provide one, and no one should try to create one from these figures.

However, there is a reassuring point that is made by the survey because our respondents have shown that their highest priority needs can be met with relatively modest individual investments. The cost for these priorities obviously varies greatly among cities of different sizes and different locations and types. On the whole, though, this finding means an effort can be started and be effective soon in meeting the capital priority facility needs. As said earlier by Senator Moynihan, let us not be paralyzed by the size of the problem.

Interestingly enough, in terms of putting together an action plan, two other issues come out of the report. The survey asks how long it would take to begin work on the priority project if in fact such funds were available to finance the work. The vast majority of the——

Senator **Stafford**. Mrs. Plumb, we are now halfway through a rollcall vote. I think we are going to have to recess the hearing until Senator Mitchell and I can get over there and vote and come back.

Mrs. **Plumb**. I understand.

Senator **Stafford**. So we will put the committee in recess temporarily. I am able to come back. I hope you are, too.

Senator **Mitchell**. I won't be able to, Mr. Chairman, so could I ask that several questions I had for Mrs. Plumb be submitted in writing and ask her to respond in writing.

Mrs. **Plumb**. I would be happy to respond.

Senator **Mitchell**. If you would respond at the earliest opportunity.

Thank you.

Senator **Stafford**. Thank you.

We have one panel to go after Mrs. Plumb. The chairman will come back and we will finish the hearing, unless the Senate has plans for me beyond my control. The committee is in recess.

[Brief recess.]

Senator **Stafford**. The committee will please come to order.

Mrs. Plumb, if you could, would you summarize the remainder since events in the Senate itself may overtake us now.

Mrs. **Plumb**. I will move right along. We are just about done with this.

We had been dealing with some of the good news, if you will, on the possibilities for in fact having an effective solution to the problem, one of which was that the category of funding scales was relatively low. Similarly, when asked how long it would take them to get a project, their major priorities, going, the answer was the startup time for these priorities was under 6 months.

Another major question which is frequently asked when public works spending is discussed, particularly Federal assistance at the Federal level, is will it be public or private employees that end up doing the work. The unequivocal answer from the research is the cities would contract out that work by their choice on these projects. This I feel is a major finding and shows conclusively an investment will in fact directly create jobs in the local sector. This leads us to a couple of recommendations.

First, any Federal effort to provide assistance in meeting the infrastructure needs should provide funds directly to local governments. This survey shows that local governments can and do plan rationally for their capital expenditure. They know what their needs are and where their priorities lie.

There is a clear and justifiable need for direct Federal-city relationships in this area, and any future legislation should embrace this principle.

Second, the survey shows that these local needs vary widely. They differ among cities and among regions and cities of different sizes and different types. For this reason, any Federal effort in this area should be designed to provide considerable local flexibility, and that has been brought up earlier today, in programing and in the use of funds clearly within national objectives.

Third, the survey shows that individual high-priority projects chosen by the respondents can in most cases be undertaken with relatively modest amounts of funding. Thus, Federal assistance could make a difference locally if it helped provide such amounts and provided them consistently and predictably over time.

Fourth, the survey shows respondents from every size and type of city government in every region can identify legitimate public facility needs. The Federal legislation should be drafted to ensure that no particular group of cities is excluded from participating in a national effort to increase investment in these facilities.

Fifth, the survey shows that economic development is a significant factor in local capital budget planning, even though it is not the most significant factor. To the extent that the Congress and this committee wish to direct national resources toward refurbishing national infrastructure, productivity and growth, we believe national legislation could be fashioned to encourage this. The survey shows this would be consistent and not at odds with already existing trends.

Sixth, we recommend funding for the improvement of capital budgeting and planning processes at the local level be included in any Federal infrastructure aid program. A majority of cities surveyed said they would support such assistance and that such aid would be helpful in improving already existing local processes.

Mr. Chairman, thank you again for letting me share this survey with you, and I would be happy to answer any questions.

Senator STAFFORD. Thank you very much, Mrs. Plumb.

I am sure there are going to be a number of questions that I anticipate will be submitted to you in writing, if that is agreeable.

Mrs. PLUMB. Yes.

Senator STAFFORD. That is beyond those that Senator Mitchell may propound.

Let me ask you a couple of questions. One is, can the infrastructure needs of this Nation be met without additional Federal support; that is, without additional Federal spending?

Mrs. PLUMB. Let me put it this way. I think there is a role for each level of government in working on the infrastructure needs. And again as the survey points out, local governments feel that they have a strong responsibility to be putting in their share. We need assistance from the State level and we will need assistance from the Federal level as well.

I think if we are to significantly improve the infrastructure issue in this country, it will take some additional consideration of Federal dollars. I realize that is not the position which was put forward by the previous speaker, but I think that we will certainly need to look at some assistance.

That is not to say the burden should fall exclusively or predominantly even on the Federal level. But certainly there will be a need.

Senator STAFFORD. Thank you.

What would be the one or two most effective things the Congress could do to help with the infrastructure problems of our Nation's cities?

Mrs. PLUMB. I think in fact the Congress is beginning on a trail to meet some of those things that would be most effective for us. I think what communities are looking for will be an indication from the Federal Government that in fact this is a major issue, an issue of national concern, and therefore an issue for national investment. I think it is important to identify national priorities as we at the local level identify local priorities and see to it that we work toward meeting those priorities.

This is an issue that is before us: clearly providing assistance in those areas where there is a national interest, in those areas where a facility meets a regional or broader need than the local community that is bringing it in and where you can affect employment, and ultimately in areas where you are going to affect the economy, because economic revitalization is going to be dependent in many ways on the capacity of the infrastructure to stimulate it. Those would be areas we would be hoping Congress would take action on and provide assistance.

Senator STAFFORD. Thank you very much, Mrs. Plumb. You have been very helpful to us. We appreciate your coming down from Maine to assist the committee. I hope we will see you again either up there or down here in the near future.

Mrs. PLUMB. Thank you very much, Mr. Chairman.

Senator STAFFORD. Thank you.

The final witnesses this morning will be a panel: Mr. James Borberg, General Manager, Hampton Roads Sanitation District, on behalf of the National Society of Professional Engineers; and Mr. Shelby Willis, President of the American Consulting Engineers Council. If they are here and would take the witness stand.

We welcome you here before the committee. It would be appreciated by the committee if you were able to summarize your statements in about 5 minutes or somewhat close thereto. The full statements will appear in the record.

We don't know which of you wishes to go first. We will let you settle the question.

Would you identify those who are accompanying you this morning for the record.

## STATEMENT OF JAMES R. BORBERG, GENERAL MANAGER, HAMPTON ROADS SANITATION DISTRICT, VIRGINIA BEACH, VA., ON BEHALF OF NATIONAL SOCIETY OF PROFESSIONAL ENGINEERS, ACCOMPANIED BY WILLIAM FOGARTY, LEGISLATIVE REPRESENTATIVE

Mr. BORBERG. Mr. Chairman, I am James Borberg, general manager of Hampton Roads Sanitation District, which collects and treats wastewater for over a million people in southeastern Virginia. In that capacity, I am very well aware of at least a portion of our infrastructure needs.

Accompanying me today is Mr. William Fogarty of the National Society of Professional Engineers staff.

We are here today to comment on three bills: S. 23, 532, and 1330.

Mr. Chairman, I believe that there are two important generalizations that can be made regarding the infrastructure problems. The first general point relates to the diversity of the issue and the differing funding mechanisms and arrangements that must be addressed by each Federal agency.

The second relates to the Federal Government's role. While we must increase our overall national investment in infrastructure, it is not reasonable to expect the National Government to pump massive amounts of money into our public works projects during a period of time of record budgets deficits.

Before discussing the proposals individually, I would like to make a few general points. First, NSPE strongly opposes the creation of major new categorical grant programs or rapid expansion of existing grant programs. We believe that there are other approaches that the National Government can take which will maximize Federal resources and improve the ability of State and Federal governments and the private sector to meet our national investment needs.

One of the studies that has been done by our consulting engineers is an analysis of financing packages using different combinations of grants and low-interest loans for a hypothetical community of fewer than 10,000 people. According to our study, a copy of which is attached to our testimony, for secondary treatment, the lowest rates per household are achieved by use of a grant covering 55 percent of the project cost with a loan funding the remainder of the project. A grant covering 75 percent of the cost with no loan component produced slightly higher rates. A loan covering all project costs raised the rates by approximately $55 per year over the lowest operation. Perhaps most significantly, a low-interest loan covering 100 percent of project costs raised the average household rate by only about $53 per year when compared to a grant covering 75 percent of the cost. In other words, there are certain alternatives.

Our second point concerns the burden assumed by the Federal Government, a subject explored in great detail by the Congressional Budget Office. We believe that the National Government needs to implement new policies on cost sharing with project beneficiaries and user fees.

Our third point addresses the tools we need to make such an evaluation. The National Society of Professional Engineers endorses the adoption of capital budgeting procedures by the Federal Government. We realize that this approach has many problems, but it also has many benefits.

I would like to specifically comment on the three bills before this committee. For reasons I stated earlier, NSPE supports the basic goals of S. 23 and commends Senator Moynihan for drafting this proposal. Our only concern is that the bill may be too ambitious in terms of the detail which the legislature requires of various budget reports to the Congress and the timetables for completing these reports. While the information called for under S. 23 certainly would be useful, we believe that the Congress could obtain the basic data it needs with a less detailed capital budgeting process.

With regard to S. 532, which would provide Federal seed money to help the States set up infrastructure banks to provide low-interest or no-interest loans, this proposal merits support for several reasons. We endorse this funding method.

As to comments on S. 1330, it is somewhat similar to S. 532 whereby seed money is set up, different types of loans, and we would give certain provisions of this proposal our support as well.

In closing, Mr. Chairman, I would like to express our appreciation for being allowed to participate in today's session. Engineers play pivotal roles in the development of our public works infrastructure, and we are anxious to help find solutions to the capital investment problems facing our National, State, and local governments. We are encouraged by the approach the committee is taking to this issue, and we look forward to supporting you in your efforts to improve our methods for planning, financing, and managing the facilities upon which our communities and our Nation depend. In providing for construction funds and maintenance procedures, Congress must insure that implementing regulations do not strangle the program. Accountability at the local level is needed, but end result goals should be stressed rather than the details of implementation.

Thank you very much. I would be happy to answer any questions.

Senator **STAFFORD**. Thank you very much, Mr. Borberg. We appreciate your help and the trouble you have gone to, to prepare a statement and be with us this morning.

Mr. Willis, I am relieved that when I said the witness would be Mr. Shelby Willis you have turned out to be mister, because when the young lady with you started to the table, I thought I had made a major gaffe. We welcome your testimony at this point.

## STATEMENT OF SHELBY WILLIS, PRESIDENT, AMERICAN CONSULTING ENGINEERS COUNCIL, ACCOMPANIED BY STACY RICHARDS, GOVERNMENT AFFAIRS REPRESENTATIVE

Mr. **WILLIS**. Thank you. I recognize that name is both male and female in use. Mr. Chairman, my name is Shelby Willis. I am a partner in the firm of Bucher, Willis & Ratliff, Consulting Engineers, headquartered in Salina, Kans., with branches in Missouri, Kansas, and Texas. Accompanying me today is Stacy Richards, government affairs representative on the staff of the American Consulting Engineers Council.

Senator **STAFFORD**. That means she is located here in Washington?

Mr. **WILLIS**. That is correct, sir.

Our firm is a multidisciplined design firm with experience in virtually every phase of facilities construction, ranging from feasibility studies, facility planning, to design, construction management and inspection of a wide range of public facilities, including viaducts, bridges, sewage treatment plants, water treatment plants, airports, and public buildings.

As the president of the American Consulting Engineers Council, ACEC, I appreciate this opportunity to present ACEC's views on developing and utilizing a National Capital investment budget to bring about a more rational and responsible approach to public facilities development.

ACEC is a national federation of more than 3,800 privately owned engineering firms involved in every component of our infrastructure. We want to commend you, Mr. Chairman, and your committee for your leadership in the public works field.

ACEC appreciates this committee's recognition of the need to develop a coherent, consistent public works policy.

I am giving a brief statement. We have submitted a longer statement.

Senator STAFFORD. We will place your full statement in the record, Mr. Willis.

Mr. WILLIS. The deterioration of our Nation's infrastructure has received wide attention recently. Neglect of public works maintenance requirements has drastically shortened the useful life of many of the Nation's public use facilities.

However, the information needed to assess current conditions of federally funded and federally assisted capital facilities is not always readily available, nor is it uniformly developed. There is an absence of any administrative mechanism to document this deterioration.

Development of essential capital facilities has become an end unto itself, a process in which the value of the facilities is often measured solely in terms of the number of construction jobs created and not on the overall importance to local, State, regional, or National economic growth.

The use of public works programs as political expedients over the past several years has led to significant declines in public support for public capital facilities. A National Capital budget is an important first step in a new, more responsible direction, and yet its development is very straightforward. I would like to list the basic steps that we in ACEC see as a part of the process.

First is the cataloging of public facilities and their physical condition that occurs in a number of Federal agency programs already. Examples are the Federal Highway Administration's bridge replacement and rehabilitation program and the EPA construction grants program.

Second, development of a uniform system for assessing overall needs based on the previous data-gathering effort that factors in facilities' capital cost, useful life, current physical condition, and other factors using existing standards.

And three, development of a segregated capital budget by the Office of Management and Budget using standardized agency input as part of the regular budget cycle.

There has been some concern that implementation of this process could lead to overstatement of needs, increasing the demand for public capital spending. We believe this need not be the case, provided the Federal Government shares the responsibility for capital facilities development with State and local governments and the private sector, that the aggregate investment in public capital facilities is based upon a useful life concept that is realistic, and provided that those in professional, technical, and financial communities develop, interpret and apply capital facilities development standards in a disciplined, objective manner.

The Federal Government must set an example worthy of being followed by States and communities in the hard decisionmaking process of public works financing. Projects must be evaluated for funding on the basis of careful cost-benefit analysis. Benefits should be measured on the basis of primary project purposes, such as flood control, water supply, pollution abatement, and not upon incidental purposes such as fish and wildlife enhancement.

Cost-sharing with substantial user-paid cost recovery to promote a greater sense of equity in facilities should be employed. Federal funding should be limited primarily to brick and mortar purposes and not for ongoing administration, operations and maintenance.

Use of tax-based investment incentives should be devoted to essential public capital facilities and not to commercial, industrial or housing projects.

Privatization should be encouraged whenever possible.

In the event that State infrastructure banks are deemed to be an appropriate funding mechanism, cost recovery through user fees in reasonable but flexible levels of cost-sharing should be employed to maintain such funds or banks.

Tax incentives for public and private purpose bonding, established through the tax law changes in the Economic Recovery Tax Act of 1981, should be reviewed not to curtail their use but to insure that Federal tax incentives and tax-inspired creative financing are available for only essential public facilities.

We believe maximum use should be made of private designers, contractors, and suppliers to reduce the ongoing payroll burden of public facilities management employment.

Mr. Chairman, this concludes our prepared statement. We at ACEC are enthusiastic about the Federal capital budget concept. It is a critically important element to the preservation and enhancement of public capital facilities throughout the United States, and it will be a disciplined guide we can folow in improving the quality of future decisionmaking affecting national capital investments. We believe the public is not only asking but demanding that all of us associated with this process make better use of scarce resources. We at ACEC commit ourselves to working actively with you toward that goal.

Thank you, Mr. Chairman, for this opportunity to come before the committee. We will be pleased to respond orally or in writing to any of the questions you may have.

Senator **Stafford**. Thank you very much, Mr. Willis. There will be questions to you and Mr. Borberg in writing, I am sure, from members who were forced to go to the floor in view of the fact we had a vote on a major bill and we are back on the Department of Defense authorization.

But I have a couple questions here for your comments at the present time, if you are agreeable.

One would be you both heard Dr. Rivlin's testimony in what probably will be her final appearance on Capitol Hill as the Director of our Congressional Budget Office. Do either of you have any comment with respect to the approach that she indicated might be appropriate?

Mr. **Willis**. I have one.

Senator **Stafford**. If you would care to respond to that question in writing rather than here, it would be perfectly agreeable to me.

Mr. **Willis**. One comment is that we studied that report. We feel the approach is thorough. We think it probably lacks the benefit of an actual inventory and an estimate of cost of each of the categories of the infrastructure that she discusses.

Senator **Stafford**. Would you agree with that, Mr. Borberg?

Mr. **Borberg**. I think so. I think the concept of user fees is certainly a valid one. You can get some of the economics of the project worked out based on user fees. If user fees won't support it, maybe you shouldn't build it. I think there are many advantages to that.

Senator **Stafford**. Thank you.

What would be the one or two most effective things that Congress could do to help with the infrastructure problem in this country as far as our cities are concerned? Again, if you would prefer to respond in writing, upon reflection, I would be most agreeable to that.

Mr. **Borberg**. That is a very big question. I think basically what we are saying is there should be some form of low-interest loans, a revolving pool of sorts, that would provide the seed money for the localities at fairly reasonable rates and it would recreate itself by a payback provision. As years go on, it gets even better.

Senator **Stafford**. That sounds like the New Jersey so-called bank scheme to me. Are you familiar with that?

Mr. **Borberg**. Yes, sir. Very similar to that.

Senator **Stafford**. I gather you would approve of that operation if it turns out to be practical, then?

Mr. **Borberg**. I think that would probably be advisable to outright Federal grants. For the money the Federal Government would normally put in, I think a revolving fund type of system would work out very well.

Mr. **Willis**. Mr. Chairman, we would like to see you authorize OMB to begin an inventory and analysis and an accurate estimate of cost using the agencies to gather the data within their own programs, including the State, county, and local city level, and then reguire OMB to implement capital budgeting as a segregated budget within the unified Federal budget.

We also strongly recommend that this committee work with appropriate congressional committee to review tax incentives for public- and private-purpose bonding established through the 1981 tax law changes contained in the Economic Recovery Tax Act of 1981 [ERTA] not to curtail their use but to insure that the use of Federal tax incentives and tax inspired "creative financing" is available for only essential public facilities.

Senator **Stafford**. All right, gentlemen. We really appreciate it for the whole committee, and I assure you that the other members will read the testimony you have offered us this morning. I am glad I had a chance to hear it in persone We thank you for the committee.

At this point the committee stands adjourned.

[Whereupon, at 12:50 p.m., the committee was recessed, to reconvene subject to the call of the Chair.]

[Statements and other material submitted for the record, responses to written questions, and the bill S. 1330 follow:]

75 YEARS
**National Governors' Association**

**Scott M. Matheson**
Governor of Utah
Chairman

**Raymond C. Scheppach**
Executive Director

STATEMENT OF
THE HONORABLE WILLIAM A. O'NEILL
GOVERNOR OF CONNECTICUT
on behalf of the
NATIONAL GOVERNORS' ASSOCIATION
before the
COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS

UNITED STATES SENATE

regarding

S. 23 - "Rebuilding of America Act"
S. 532 - "Public Investment Incentive Act"
S. 1330 - "Public Capital Investment Act"

July 15, 1983

HALL OF THE STATES · 444 North Capitol Street · Washington, D.C. 20001 · (202) 624-5300

Senator Stafford and Members of the Committee on Environment and Public Works:

On behalf of the National Governors' Association and the citizens of Connecticut, I want to thank you for this opportunity to appear before you.

A few days ago, a State Capitol correspondent from one of our Connecticut newspapers wrote a column about the subject of today's hearing. I'd like to quote the first few lines for you as an example of the problem we in public service face.

The column began this way:

"I heard the word infrastructure for the first time exactly one year ago. I remember it only because I was lounging in the sun on a beach in southern California, catching up on a week's worth of news with Time or Newsweek near the end of a tiring vacation. The colored pictures of dams, roads, bridges, sewer pipes and crumbling buildings the magazine ran with its opus helped me figure out what infrastructure meant. I never did read the cover story about the costly decay. It was boring. There's nothing juicy about replacing girders and shoring up sewer lines. And if it can't scream, vote, picket or give a donation, chances are those who make decisions about what's important will figure this stuff isn't. Maybe that changed last week."

What the columnist was referring to when he wrote that last line, "Maybe that changed last week," was the collapse of a 100 foot span of the Mianus River bridge on Interstate Route 95 in Greenwich, Connecticut. That tragedy took three lives and injured three others seriously.

The span collapsed at 1:28 in the morning when traffic was light. Members of this Committee, it is almost beyond imagination to picture what might have happened if this tragedy had occured during the day. This bridge, on one of the most heavily traveled sections of highway anywhere in this country, carries approximately 90,000 vehicles each day.

The cause of the collapse is under investigation by state and federal authorities and private sector experts. It may turn out that this was related to the overall infrastructure problem, or it may be that the cause was due to some unrelated factor. However, regardless of the cause, one fact is clear. This tragedy has served to focus statewide, regionwide, and yes, nationwide attention on the problems all of us know exist with our infrastructure. Even the columnist I have quoted is now a self-made expert on the subject.

You have before you three bills involving infrastructure, and Governor Perpich testified on similar legislation in the House last April.

The National Governors' Association has been very active in jobs and infrastructure issues for several years. We developed a set of principles that guided our involvement in recent jobs legislation, and we now welcome action by the Congress on infrastructure issues. Twenty Governors are cooperating with the Joint Economic Committee survey on state infrastructure needs. Six Governors are members of the National Advisory Committee to the Joint Economic Committee. Individual Governors already have taken their own leads in very innovative approaches. Colorado's Governor Lamm and Maine's Governor Brennan are recognized leaders in capital planning and budgeting. Maryland's Governor Hughes is a leader in state financial aid and the coordination of local capital development.

In my State of Connecticut, I have appointed a Governor's Task Force on Infrastructure comprised of members of the public and private sectors. I have directed it to determine the size and scope of the infrastructure problem in our state and to provide policy recommendations.

The Task Force has already come up with some alarming statistics. We have more than 4,300 miles of state roads in Connecticut, and more than 60 percent of those miles are rated as "less than good." We have nearly 15,000 miles of local roads, yet nearly nine of every ten of our cities and towns are deferring maintenance. Of the more than 3,400 bridges on our state road system, more than 60 percent are rated "less than good, " and 300 of them--nearly one of every ten--are reported to be "severely deteriorated." We have 3,200 dams in Connecticut, and more than 1,100 of them are rated as "high hazards" if they fail. Nearly 500 of them are in need of repair.

The Task Force is still working on cost estimates, but we already know that the figures, in our small state alone, will reach the billions of dollars. Temporary repairs and permanent restoration of the Mianus River bridge, just that single bridge, could reach $37 million.

There is more to this initial report, but the picture it paints is very clear.

What is also clear is that state governments now pay, and will continue to pay, the largest share of the infrastructure bill. In fact, I am submitting a state-by-state breakdown which shows that in 1981 the states, in total, spent more than $24 billion for capital outlays.

Once again, using my state as an example--from January 1, 1975 through the first half of this year, my state awarded 451 highway construction projects with a total value of more than $573 million, and 107 bridge projects with a total value of nearly $65 million. In addition to new construction, our maintenance operations and roadway improvement projects, from Fiscal Year 1976 through Fiscal Year 1982, totaled about $243 million, or an average of nearly $35 million per year.

The specific issue before us today is financing for infrastructure needs in tight fiscal times. The Governors believe this is really a three-part issue: the need for expanded use of capital planning and budgeting; revised management practices; and innovative financing strategies. In addition, the Governors feel strongly that the Congress should be very skeptical of any plan that fails to include all levels of government, with the states as the principal agents.

The area of capital planning and budgeting includes better inventories of needs, cost-based assessments, and the institution of capital budgeting techniques, each of these by all levels of government, with concentration on improvements which foster economic growth and long-term jobs.

New management approaches are needed to assure optimum use of our limited dollars. The Governors believe special emphasis should be placed on research and technology improvements, timely maintenance schedules, practical and cost-effective design standards, elimination of any bias against maintenance, and provision of sufficient flexibility to direct funds to the highest priority projects.

Funding strategies must involve all levels of government and an increased commitment from the private sector. The Governors recommend that all avenues of funding be examined including: full and expanded levels of current federal financial support; more block grant flexibility to meet states' priorities; dedicated user fees; interstate compacts; tax incentives; joint public-private ventures; state banks; bond pools; standby countercyclical legislation; and specific funds for special projects and situations such as natural disasters.

Although our focus is on initiatives at all levels of government, the Governors believe that the federal government no doubt will remain an important influence on public capital investment programs. This is because of the federal government's broad taxing powers, the fact that many kinds of public works are in the national interest, and the sharp differences in fiscal resources available to the various states and localities which mandate a continued federal presence.

Specifically, the Governors recommend that federal public works programs promote a systematic assessment of infrastructure needs at the state and local levels; provide maximum flexibility to states and local governments in determining needs for capital improvements by decentralizing the responsibility for capital investments; assist the states in developing varied financial mechanisms for public works, since state infrastructure banks, bond banks, and loan guarantee programs can yield substantial savings and bring more cohesiveness to the process; and coordinate capital planning and budgetary procedures among federal agencies and with the states.

The current policy of the National Governors' Association supports the general provisions of all three billls before the Committee. This policy focuses on four areas: jobs; financing; capital budgeting; and a national inventory of infrastructure needs.

The Governors support the creation of emergency jobs through existing infrastructure programs with maximum local flexibility, including a block grant to the states, targeting, a timely commitment of funds, reduced or no matching, dedicated user fees, and the authority to transfer funds to meet state priorities more effectively. Except for the 50 percent match and Corps of Engineers administration, most of these provisions are included in S. 1330. Many of the neediest states will not be able to provide the 50 percent match in the forseeable future. The Governors do not have a policy in opposition to administration by the Corps of Engineers, but we do prefer the existing program administration. Millions of dollars have been spent to develop state and local agencies. These resources should be utilized and strengthened where necessary to deal with infrastructure problems. In addition, the Governors have always supported the provisions of Title II of S. 1330 for a standby public investment or countercyclical program.

The Governors support state-by-state financing mechanisms which include state banks or corporations that are specifically designed to deal with long term capital needs. S. 532 provides an excellent approach, building in the multiplier effect of leveraging private funds that must be a part of any long term solution. Most of the provisions of S. 532 were developed in consultation with the states.

In the area of capital budgeting, the states have long identified their appropriations for capital budgets. The Governors are not suggesting that federal capital spending be an off-budget category. Rather, we are proposing that the federal budget clearly identify current and projected federal funds for capital needs. At the very least, the Administration should send to the Congress a specific analysis of current and proposed federal contributions to the nation's infrastructure needs. S.23 calls for just such an analysis. The Committee may wish to amend S. 724 or S.1330 to make it clear that certain funds are available for local capital budgeting coordinated by an agency designated by the Governor. In this way, all levels of government are involved in this critical process.

The Governors support a national inventory of infrastructure needs. However, it is our sincere hope that such an inventory will not become as meaningless as the current disarray of facts about the actual condition of our infrastructure and the costs of halting the decay and building for the future. Any national inventory and assessment must be done on a state-by-state basis and include local needs, if is to be meaningful as a basis for Congressional decisions.

Once again, I want to thank you for this opportunity to discuss with you this important matter. I have brought with me the Commissioner of our state Department of Transportation, Bill Burns, and we would be pleased to answer any questions you might have.

STATE GOVERNMENT FINANCES IN 1981

## Table 12. State Government Expenditure for Capital Outlay, by Function: 1981

(Thousands of dollars)

| State | Total | General government functions |  |  |  |  |  |  |  |  | Liquor stores | Utilities |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
|  |  | Total | Highways | Education | Natural resources | Hospitals | Corrections | General public buildings | Public welfare | Other |  |  |
| ALL STATES | 24 288 024 | 23 346 768 | 14 297 308 | 3 781 121 | 369 250 | 916 673 | 615 795 | 385 479 | 57 129 | 2 701 602 | 7 890 | 933 036 |
| ALABAMA | 669 128 | 667 617 | 395 175 | 107 023 | 3 321 | 11 199 | 8 441 | - | 758 | 31 472 | 1 511 | - |
| ALASKA | 321 998 | 321 998 | 130 566 | 61 098 | 12 626 | 40 | 11 120 | 809 | 179 | 128 363 | - | - |
| ARIZONA | 334 029 | 334 029 | 213 469 | 61 477 | 1 957 | 4 628 | 29 696 | 8 036 | 1 167 | 12 356 | - | - |
| ARKANSAS | 182 316 | 182 316 | 111 364 | 40 977 | 3 129 | 4 032 | 1 700 | 8 728 | 752 | 11 794 | - | - |
| CALIFORNIA | 1 379 711 | 1 379 711 | 626 958 | 333 767 | 137 484 | 74 025 | 20 082 | 76 153 | 3 499 | 305 676 | - | - |
| COLORADO | 244 856 | 244 856 | 108 613 | 96 157 | 7 386 | 2 217 | 5 971 | 10 912 | 681 | 19 511 | - | - |
| CONNECTICUT | 263 990 | 235 688 | 141 300 | 39 138 | 3 428 | 7 384 | 10 257 | 3 720 | 373 | 29 997 | - | 28 302 |
| DELAWARE | 118 787 | 118 676 | 34 771 | 16 138 | 3 731 | 3 201 | 12 098 | 386 | 232 | 27 239 | - | 111 |
| FLORIDA | 875 964 | 872 460 | 667 193 | 97 952 | 10 178 | 19 293 | 22 093 | 15 177 | 317 | 39 185 | - | 3 504 |
| GEORGIA | 596 439 | 596 439 | 418 392 | 64 443 | 6 793 | 9 408 | 43 900 | 6 465 | 58 | 49 012 | - | - |
| HAWAII | 236 808 | 236 808 | 76 900 | 87 167 | 9 881 | 3 989 | 4 126 | 22 373 | 332 | 48 892 | - | - |
| IDAHO | 115 323 | 114 812 | 77 358 | 22 223 | 2 190 | 800 | 3 353 | 1 180 | 648 | 9 328 | 511 | - |
| ILLINOIS | 1 159 633 | 1 159 633 | 684 322 | 138 789 | 31 772 | 25 419 | 39 286 | 12 988 | 1 381 | 39 926 | - | - |
| INDIANA | 522 409 | 522 409 | 300 737 | 120 470 | 17 868 | 18 173 | 19 780 | 1 832 | 4 773 | 38 734 | - | - |
| IOWA | 296 662 | 296 190 | 206 663 | 42 807 | 6 841 | 29 393 | 1 921 | 1 726 | 3 140 | 5 499 | 472 | - |
| KANSAS | 295 198 | 295 198 | 232 052 | 38 306 | 3 897 | 13 068 | 2 460 | 393 | 717 | 5 000 | - | - |
| KENTUCKY | 738 971 | 738 971 | 597 736 | 62 711 | 18 366 | 16 669 | 16 909 | 796 | 233 | 26 091 | - | - |
| LOUISIANA | 673 681 | 673 681 | 429 121 | 109 096 | 38 489 | 11 799 | 3 900 | 1 212 | 2 048 | 108 789 | - | - |
| MAINE | 79 968 | 79 968 | 59 676 | 3 731 | 5 303 | 838 | 421 | 616 | 217 | 9 168 | - | - |
| MARYLAND | 441 329 | 319 580 | 197 013 | 61 135 | 7 307 | 19 484 | 28 016 | 58 | 282 | 66 231 | - | 121 749 |
| MASSACHUSETTS | 444 769 | 438 331 | 258 955 | 31 287 | 9 058 | 32 736 | 9 350 | 17 413 | 2 252 | 67 697 | - | 6 438 |
| MICHIGAN | 586 344 | 586 344 | 355 769 | 128 793 | 6 488 | 31 233 | 6 667 | 5 912 | 861 | 31 882 | - | - |
| MINNESOTA | 398 686 | 398 686 | 256 062 | 64 672 | 13 717 | 18 949 | 13 272 | 11 096 | 2 722 | 18 308 | - | - |
| MISSISSIPPI | 321 172 | 320 986 | 216 916 | 56 687 | 3 468 | 7 284 | 7 366 | 12 867 | 631 | 16 211 | 186 | - |
| MISSOURI | 433 460 | 433 460 | 276 221 | 37 987 | 28 118 | 18 673 | 18 000 | 26 639 | 382 | 17 098 | - | - |
| MONTANA | 176 309 | 176 291 | 128 322 | 10 253 | 2 366 | 676 | 1 092 | 3 029 | 330 | 6 188 | 18 | - |
| NEBRASKA | 210 166 | 210 166 | 147 129 | 28 541 | 6 176 | 4 358 | 14 089 | 3 387 | 480 | 10 888 | - | - |
| NEVADA | 216 946 | 165 842 | 106 636 | 14 235 | 2 490 | 3 041 | 21 699 | 4 007 | 283 | 12 483 | - | 51 104 |
| NEW HAMPSHIRE | 73 180 | 72 809 | 50 229 | 4 480 | 671 | 1 338 | 823 | 861 | 136 | 7 941 | 371 | - |
| NEW JERSEY | 819 371 | 729 064 | 186 677 | 38 321 | 33 900 | 160 342 | 19 705 | 1 371 | 1 383 | 200 998 | - | 90 307 |
| NEW MEXICO | 213 767 | 213 767 | 127 773 | 31 731 | 2 670 | 9 298 | 11 790 | 1 193 | 730 | 18 128 | - | - |
| NEW YORK | 1 775 955 | 1 476 387 | 940 163 | 329 631 | 5 911 | 76 812 | 36 383 | 14 679 | 1 494 | 190 916 | - | 299 568 |
| NORTH CAROLINA | 320 479 | 320 479 | 306 427 | 139 133 | 19 331 | 17 961 | 43 430 | 1 169 | 170 | 43 470 | - | - |
| NORTH DAKOTA | 125 932 | 125 932 | 79 300 | 17 980 | 3 352 | 3 950 | 732 | 6 400 | 400 | 14 392 | - | - |
| OHIO | 1 131 324 | 1 130 348 | 300 030 | 168 616 | 28 060 | 53 012 | 6 615 | 12 736 | 188 | 496 079 | 976 | - |
| OKLAHOMA | 490 730 | 369 299 | 215 661 | 62 277 | 3 106 | 21 361 | 10 138 | 1 275 | 3 960 | 30 908 | - | 121 431 |
| OREGON | 311 661 | 311 548 | 126 710 | 37 778 | 6 678 | 3 323 | 1 329 | 14 573 | 679 | 18 783 | 113 | - |
| PENNSYLVANIA | 611 197 | 610 038 | 409 048 | 119 228 | 10 113 | 21 209 | 1 237 | 1 990 | 2 599 | 42 900 | 1 159 | - |
| RHODE ISLAND | 96 362 | 96 226 | 63 953 | 6 466 | 736 | 1 489 | 1 042 | 767 | 68 | 31 935 | - | 136 |
| SOUTH CAROLINA | 602 227 | 388 038 | 117 488 | 76 107 | 3 279 | 6 407 | 398 | 2 303 | 731 | 98 189 | - | 214 189 |
| SOUTH DAKOTA | 136 085 | 136 085 | 96 076 | 11 327 | 2 962 | 902 | 131 | 176 | 51 | 25 180 | - | - |
| TENNESSEE | 475 783 | 475 783 | 322 290 | 91 705 | 7 071 | 17 230 | 9 640 | 7 373 | 57 | 20 481 | - | - |
| TEXAS | 1 796 130 | 1 796 130 | 1 336 907 | 284 370 | 9 092 | 48 268 | 39 461 | 6 807 | 4 391 | 73 536 | - | - |
| UTAH | 224 577 | 224 388 | 134 633 | 31 772 | 13 828 | 18 367 | 636 | 6 367 | 4 711 | 23 810 | 189 | - |
| VERMONT | 51 356 | 51 333 | 28 398 | 10 984 | 414 | 1 436 | 2 809 | 1 088 | 96 | 6 400 | 23 | - |
| VIRGINIA | 695 918 | 695 480 | 473 998 | 104 388 | 6 905 | 38 327 | 34 290 | 16 400 | 180 | 40 981 | 438 | - |
| WASHINGTON | 636 271 | 634 831 | 417 088 | 168 366 | 18 899 | 46 432 | 43 683 | 13 199 | 2 631 | 28 067 | 1 440 | - |
| WEST VIRGINIA | 396 737 | 396 696 | 355 017 | 20 014 | 3 096 | 1 813 | 116 | 21 | 1 181 | 14 501 | 41 | - |
| WISCONSIN | 239 052 | 239 052 | 190 927 | 76 754 | 12 781 | 3 962 | 11 122 | 6 946 | 684 | 31 700 | - | - |
| WYOMING | 173 486 | 173 286 | 149 981 | 3 419 | 2 460 | 1 380 | 7 398 | 6 913 | 390 | 3 496 | 200 | - |

- Represents zero or rounds to zero.

BUREAU OF THE CENSUS
Refer: Government Finances GF 81 #3
September, 1982

E. - 5

## COMMUNITY CONSERVATION AND DEVELOPMENT

### Meeting Public Capital and Physical Infrastructure Needs

Capital investment in public infrastructure has not kept pace with need, resulting in deterioration of basic public facilities in many older urban centers and a substantial lack of such facilities in many small communities and rural areas. In many communities, routine maintenance as well as replacements and major repairs have been deferred, causing roads, bridges, rail transit systems, water systems, schools and other facilities to lose much of their productive value or become unsafe. The inherited stock of publicly owned physical capital is a major asset for communities of all sizes. Allowing this capital to fall into a state of disrepair through neglected maintenance, or to become functionally obsolete through lack of renovation, is shortsighted from local, state, and national policy perspectives.

Available projections of public capital needs between 1980 and 2000 indicate a need for massive investments if existing facilities are to meet established standards and needed new facilities are to be constructed. Neither local nor state governments are expected to be in a fiscal position to provide the necessary funds.

While many federal programs provide financial assistance for infrastructure, the federal government also imposes facility requirements that have the effect of mandating expenditures by state and local governments. Federal funds pay for a significant portion of the public capital investment specifically mandated by federal laws; however, federal assistance has varied in regional emphasis, degree of success, unintended effects, and future cost implications for consumers and taxpayers.

Although some progress has been made in relaxing restrictions that have limited federal capital assistance to new construction, relatively little federal aid has been effectively redirected to maintenance, repairs, and improvements of existing public facilities. At the same time, federal mandates are threatening to impose new costs and increase program complexities in the face of reduced federal assistance.

### Federal Actions Suggested

- The federal government should provide financial assistance fully commensurate with the costs imposed by federal standards affecting state and local facilities.
- The federal government should accord priority in its capital investment assistance programs to those communities that have the greatest needs for aid.
- The federal government should make funds available over a multi-year time period to make it easier to coordinate the federal financing of capital projects.
- The federal government should assume primary responsibility for developing and testing alternative technologies for meeting public facility needs at the lowest costs.
- In establishing standards and requirements for public facilities, the federal government should emphasize performance requirements rather than specific design criteria, and should permit sufficient flexibility for accommodation to local design needs and preferences.

State Actions Suggested

- To assist smaller communities in financing public capital projects, states should explore the use of state "bond banks" as a means of reducing borrowing costs and increasing access to capital markets. State supervision of local borrowing also should be considered as a method of improving local bond ratings and lowering borrowing costs.
- States can provide needed assistance to local communities in assessing alternative technologies in such areas as water and waste treatment facilities in order to improve the cost-effectiveness of local public infrastructure investments.
- Local community development and public infrastructure needs should be given priority consideration in the development of state capital budgets. In particular, repair and replacement needs should be carefully weighed against new construction needs.

Adopted August 1980; revised August 1981.

**National Governors' Association**

Scott M. Matheson
Governor of Utah
Chairman

Raymond C. Scheppach
Executive Director

## JOBS CREATION INITIATIVES

Current levels of unemployment are unacceptably high, and projections now indicate that the unemployment rate will remain high through 1983. Recognizing the importance of this issue, the National Governors' Association has established a Task Force on Jobs and Infrastructure. The focus of the Task Force is two-fold: first, to develop policy that would enable the National Governors' Association to work with Congress on emergency job legislation it is developing; and second, to identify long-term initiatives that provide the most effective response to the unemployment problem. Infrastructure programs, retraining, and relocation efforts will be among the options reviewed by the Task Force.

## EMERGENCY JOBS LEGISLATION

The Governors believe that any Emergency Jobs Creation Program adopted by Congress should conform to five principles:

- Preservation: Financing for programs should not come at the expense of existing programs of federal assistance. These programs have already taken more than their share of spending reductions.

- Flexibility: In order to obtain the highest value from the Emergency Job Creation Program, states and local governments should have maximum flexibility in allocating the funds.

- Efficiency: To ensure benefits to the maximum number of unemployed people under the special legislation, priority should be given to activities that are labor-intensive.

- Targeting: Funds utilized for jobs creation should be targeted to the long-term unemployed.

- Timeliness: The timely commitment of federal funds by states and local governments is necessary to put people back to work as soon as possible.

The states, in cooperation with local governments, are uniquely able to move quickly and effectively to implement emergency jobs efforts without creating new and complex administrative systems. They are experienced in administering a broad array of important programs which could be expanded to provide useful employment, and they are well equipped to establish priorities and to coordinate the emergency initiative with other ongoing programs. They have the necessary flexibility to deal with problems that overlap local jurisdictions.

Finally, they have established relationships with the private sector necessary to permit public-private cooperation in identifying job opportunities. This state capacity is enhanced by the fact that states themselves are ready to proceed rapidly with the backlog of needs that has accumulated as a result of declining revenues at all levels of government.

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The Governors suggest the following guidelines for implementing the principles outlined above:

- Any national jobs creation legislation should avoid supplanting existing federal programs of state and local assistance.
- States and local governments should be used as the conduits for emergency funds.
- The emergency jobs program should include a block grant to the states.
- The emergency funds should be flexible, so that states can best adapt their use to the special needs of their citizens.
- Preference should be given to labor-intensive uses such as maintenance and repair of public facilities, resource reclamation and conservation, and hiring for human services programs.
- No matching provisions should be included.
- Emergency program should require states and local governments to:
    - Commit funds within a specified period of time. If any state or local government is unable to fully use such block grant funds within the guidelines specified, the funds should be reallocated to the state government or the local entities within the state which are ready to utilize them;
    - Give priority in hiring to persons who have been unemployed for lengthy periods;
    - Emphasize aid to areas within the state most severely affected by unemployment;
    - Avoid displacement of current workers.
- Administrative procedures should be kept to a minimum in order to permit timely expenditures of funds, and emphasis should be placed on reporting decisions at the end of the program.

## LONG-TERM EMPLOYMENT AND TRAINING STRATEGY

The Governors recognize that development of a comprehensive national employment policy must be assigned the same level of priority by the federal government as national defense, the maintenance of a sound currency, and support of a healthy economy. Raising employment policy to such a level may require an examination of the current structure of both the executive and legislative branches of government to implement that policy. Above all, we need to streamline the federal response to unemployment and organize government around the principle of employment.

An effective, long-term employment and training policy must include a combination of economic development policies and emphasize job training for permanent employment instead of only attempting to cushion the severe blow of unemployment. To this end, we recommend the development of a flexible system that creates job skills to match future job opportunities. Such a plan should include the following components:

- Assistance for Displaced Workers: A package of retraining, job search and relocation assistance should be available for those who are receiving benefits or have exhausted their benefits and are unlikely to return to their previous jobs. The package would include unemployment insurance to bridge the transition from job to job; retraining to improve personal occupational skills; counseling, job seeking, and relocation assistance to move the individual from a lost job to a new job. We support proposals by the administration and Congress to increase funding for Title III of the Jobs Training Partnership Act (JTPA) for the training of displaced workers.

- Youth School-to-Work Transition Assistance: A school-to-work transition program is needed to prevent the front end loading of the unemployment lines that occurs when young people graduate from high school and cannot find or do not have the skills to get a job.

- Improved Vocational Education System: To further assist local educational agencies, federal vocational education and economic development assistance funds should be targeted upon improving training facilities and programs in our vocational education system. In order to accommodate the massive retraining effort needed over the next decade, the vocational education system must be expanded and strengthened.

- State Planning Support: The federal government should provide partnership assistance to help state and local governments prepare their own employment strategies. Job creation is often more a local than a national issue because education, taxation, zoning, and transportation policies determined at the local level are frequently decisive in changing stagnation into economic growth.

- Private Sector Involvement: The private sector employers should be encouraged to provide their employees with new skills training and basic remedial education.

The Governors are committed to working with the President and Congress for an effective emergency jobs program. We are further committed to working with national leaders to solve the longer term unemployment problems facing our nation through sustained economic growth and related government initiatives.

Adopted March 1, 1983

# STATEMENT OF ALICE M. RIVLIN

## DIRECTOR

## CONGRESSIONAL BUDGET OFFICE

Before the
Committee on Environment and Public Works
United States Senate

Mr. Chairman, I am pleased to have this opportunity to discuss the nation's investment in public works infrastructure. In my remarks this morning, I will focus on the nature of the current problems and the costs of dealing with them, and on several strategies that could improve the cost effectiveness of infrastructure investment.

In a recent analysis of seven major infrastructure systems, the Congressional Budget Office has found that the level of current federal spending is not far below reasonable estimates of needs. 1/ The structure of federal programs, however, is not well suited to those needs. Many programs do not address highest-priority problems, nor do they always lead to the most cost-effective investments. The Congress has already recognized this problem in enacting the Surface Transportation Assistance Act of 1982. That legislation is part of a major reorientation from the past emphasis on building new facilities to today's greatest needs--repair, replacement, and modernization of the facilities already in place. Budgetary pressures give particular urgency to this transition.

Three approaches analyzed by the CBO may help to guide the shift toward more productive investments--greater application of user fees,

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1. See Congressional Budget Office, Public Works Infrastructure: Policy Considerations for the 1980s (April 1983), which examines highways, public transit, wastewater treatment, water resources, air traffic control, airports, and municipal water supply.

greater local responsibility for facilities of local interest, and redirection of federal aid toward less capital-intensive investments. If steps in these directions were taken, annual federal expenditures might actually fall as much as $4 billion below the current level of $24 billion (in 1982 dollars) while still meeting national needs. More important, with the cost effectiveness of investment improved, the resulting public infrastructure would better support the continued economic growth of the nation. At the same time, though, such a transition raises other issues: state and local expenditures might have to rise, users of infrastructure-based services might have to pay more, and some services might have to be reduced.

## CURRENT INFRASTRUCTURE PROBLEMS AND COSTS

With the nation's public works infrastructure largely in place, the main problem now is physical deterioration, compounded by the effects of aging and inadequate maintenance. Technological obsolescence and insufficient capacity to serve growth also cause problems.

The CBO estimates that, to meet a reasonable definition of needs, annual capital outlays by all levels of government would have to increase from $42 billion (again, in 1982 dollars) to roughly $53 billion between 1983 and 1990. Under current programs, the federal share of these higher outlays would average $28 billion a year--somewhat above current federal spending of $24 billion a year (see Table 1). For highways and, to a lesser extent, public transit, estimated needs for federal spending are not greatly different from the current level, owing largely to the almost $6 billion increase provided by the 1982 legislation. For other programs, however, the percentage increase would be significant. For water resources, for example, annual federal spending would have to rise by roughly two-thirds; for wastewater treatment, the increase would be one-third. These estimates presuppose continuation of the current federal share of each type of infrastructure spending.

If needs were interpreted as requiring broader federal responsibility than under current policy, however, calls for even higher federal spending could result. For example, if the full shortfall in wastewater treatment needs were met with federal dollars--instead of roughly half, as under current law--an additional $1.6 billion in annual outlays would be required. More strikingly, if the projected capital costs in municipal water supply were paid entirely with increased federal dollars, annual outlays would increase from about $1 billion to about $8 billion.

TABLE 1. ANNUAL FEDERAL CAPITAL INVESTMENT UNDER CURRENT AND REVISED POLICIES, BY SYSTEM, 1983-1990 (In billions of 1982 dollars)

| Infrastructure System | Current Annual Spending Level | Annual Outlays to Meet Alternative Measures of Need: Under Current Program Structure | Under Revised Programs |
|---|---|---|---|
| Highways | 12.7 | 13.1 | 9.3 |
| Public Transit | 3.7 | 4.1 | 2.2 |
| Wastewater Treatment | 3.2 | 4.2 | 3.7 |
| Water Resources | 2.3 | 3.7 | 3.1 |
| Air Traffic Control | 0.8 | 0.8 | 0.7 |
| Airports | 0.8 | 0.9 | 0.3 |
| Municipal Water Supply | 0.9 | 1.4 | 1.0 |
| Total | 24.4 | 28.2 | 20.3 |

SOURCE: Congressional Budget Office.

## FEDERAL APPROACHES TO IMPROVE PUBLIC WORKS INVESTMENT

Today, many of the purposes that originally motivated federal involvement in public works have been largely achieved--the need to establish a basic infrastructure, to promote regional development through public works, and to rely on federal initiative and financial strength. For example, developing entire river basins was a concern of the 1930s that prompted creation of the Tennessee Valley Authority. Today, the Tennessee and other major river basins are largely developed, and construction of smaller intrastate water projects is gaining in importance. Similarly, to accelerate the settlement of the West, the federal government subsidized irrigation for western agriculture. Today, agriculture in western states has become a mature industry far more capable of supporting itself. The federal government also helped stimulate commercial aviation by making capital grants for airport development, with the result that every major city now has an airport. Most large airports, however, appear able to raise further investment capital on their own.

In the light of these accomplished goals and emerging needs for repair, replacement, and modernization, the CBO has analyzed three approaches that could help align public works investment with new priorities:

- **Raising user fees** to help guide federal spending toward the types and levels of services that are most in demand, while also raising funds for needed investments.
- **Limiting the federal role** to infrastructure investments with clear national importance; and
- **Redirecting existing federal aid** to alter the current bias toward capital-intensive investment decisions.

## Raising User Fees

Though private users of many infrastructure facilities now pay some fees, most such fees are set far below the levels needed to recover public costs. The resulting subsidies stimulate demand and lead to exaggerated perceptions of the need for services. A good example is the inland waterway system, which the Army Corps of Engineers constructs and operates. At present, users repay only about 6 percent of the system's cost. This results in a subsidy from the general taxpayer of almost 30 percent of the total cost of moving freight by inland barge--many times the value of federal subsidies to trucks and railroads. Such a large subsidy encourages demand for new capacity and invites further subsidized construction. Continuing a shift begun under the 1978 Inland Waterway Revenue Act, the Administration recently proposed (in S. 1554) user fees that would recover 70 percent of the costs of building and operating the inland waterway system. For new construction, fees would be levied on a segment-by-segment basis; this would help assure that only facilities expected to have adequate traffic were built. Operating costs would be covered by system-wide charges, which would assure that all segments now operating remained open.

Similarly, in municipal water supply, low water rates encourage overconsumption, leading to high estimates of future needs. Higher charges for water would reduce demand, in turn reducing capital needs for new sources of supply and increasing municipal revenues. These factors together would permit municipalities to satisfy about 95 percent of projected water supply needs.

Higher user fees would also apply to aviation. At present, air traffic congestion, and hence pressure to expand airport capacity, commonly occurs at certain hub airports and during daily periods of peak demand. Only rarely, however, are user fees structured to reflect the high capital costs of congestion--the costs of building new runways, terminals, and other facilities. If peak-hour user fees were raised to cover such costs, some traffic would shift to off-peak hours and to less-crowded airports, thereby reducing the need for airport expansion. At the same time, users willing to pay the price of the extra capacity would provide the necessary revenue through their fees.

Finally, financing backed by user fees can be critical to the start of new projects. With severe budgetary pressures facing all levels of government, the absence of such financing can sometimes block needed investment. For example, new deep-draft ports appear likely to provide cost savings for coal exports. Yet dredging has not proceeded because of disagreement among the Congress, the Administration, and the port operators regarding the size and type of user fees best suited to finance this work.

## Limiting the Federal Role

When a rationale no longer exists for federal involvement in local projects, federal funding can distort economic choices and divert funds from more pressing national needs. Highways offer a good example. Originally, the financial advantage to states through 90 percent federal matching shares for Interstate highway construction assured the Interstate System's completion. With nearly all nationally important segments built, that high match now encourages states to build projects of primarily local concern--projects they might not undertake if more state money had to be spent for them. Lower matching ratios might reduce demand for such construction and release resources for needed repairs. A more drastic approach would be to eliminate urban highways and other locally oriented roads from the federal program. This would require \$3.4 billion less a year than would current policies, while making more federal dollars available for the repair of nationally important routes.

Today, states appear better able than in the past to meet the financial challenges that would come with greater responsibility. State and local financing mechanisms now in common use--earmarked revenues, local user fees, state bond issues, and state bond guarantees--can generate significant sums. Over the past three years, for example, the states issued almost $8 billion in general obligation and revenue bonds for water resources alone. With access to these financial instruments, states and localities may no longer require substantial federal aid to finance large, up-front capital investments. Many airports, for example, still drawing 90 percent federal grants for capital improvements, are rated in the municipal bond market as premium investments, and they might find ways to finance their own capital development.

The long-run economic benefits of limiting the federal role would have to be balanced against the transition costs borne by state economies. Moving too quickly toward greater state responsibility could make this transition more difficult. Some states could be constrained by depressed economic conditions and would either require assistance or be forced to forgo public works spending until conditions improved. Two types of states would be at a relative disadvantage: those that have relied most heavily on federal subsidies, and those with less capacity to raise development capital. To avoid dislocations, even in more prosperous states, the federal government might reduce its support for local projects gradually, allowing states and localities time to explore locally available options. In aviation and highways, for example, the federal government might consider an interim policy of either turning back user fee revenues to states or reducing federal user fees to allow states and localities to phase in their own higher taxes.

The federal government could also ease this transition by helping the states set up self-sustaining financing institutions. State infrastructure banks, for example, could be capitalized initially with federal seed money, an approach proposed in the Public Investment Incentive Act of 1983 (S. 532). Alternatively, a combination of federal infrastructure block grants and state matching funds could be used, as is suggested in the Public Capital Investment Act of 1983 (S. 1330). States or localities would make investment decisions, according to their own priorities, from a revolving loan fund. Such a fund would be replenished with user fee revenues or other payments from local governments, ensuring a future source of public infrastructure capital.

## Redirecting Federal Assistance

Federal aid to some types of public works projects could be made more cost effective if the current federal match on capital grants were reduced or if more federal funds could be used for purposes other than new construction. In public transit, for example, high federal capital grants have encouraged many cities to start new capital-intensive systems, particularly rail. At the same time, local financial constraints have forced other transit authorities to neglect the worsening physical condition of older-generation rail systems. Not enough of the $3.7 billion a year now available for federal capital grants goes toward repair and rehabilitation in the most transit-dependent cities, although the overall sum appears within range of estimated transit needs through 1990. Further, a smaller federal match--perhaps 60 percent, rather than the current 75 percent--would encourage cities to pursue low-cost transit options, such as express buses and carpool lanes. Finally, federal spending could be better targeted if a larger proportion of funds were distributed according to transit use rather than population size and density, and if federal regulations were reduced. These policy changes offer the potential to reduce federal spending to around $2.2 billion a year.

Changes in federal regulations might also result in meeting infrastructure needs at less federal expense. If the Environmental Protection Agency's national standards for minimum wastewater treatment were made flexible enough to accommodate local conditions, perhaps as much as $8 billion could be saved over a 20-year period, at no expense to local ambient water quality.

## CONCLUSION

In summary, Mr. Chairman, the infrastructure problem is a manageable one. The current level of federal infrastructure spending appears within reach of the nation's investment needs in the areas included in CBO's study. More important, however, are the significant opportunities available for channeling federal spending into more cost-effective investments. Greater reliance on user fees, greater state and local responsibilities, and redirected federal aid can be part of the transition already under way to promote more effective public works investment at any level of spending.

## Questions Submitted to Dr. Rivlin

1. You have stated that an $11 billion (in 1982 dollars) annual increase in capital outlays by all levels of government would meet infrastructure needs. The Federal share of that amount under current spending ratios would average $4 billion annually. What financing mechanism would allow the Federal government to have the most impact for its expenditures in this area? Please address such mechanisms as the infrastructure bank proposal and loan guarantees versus the block grant proposal you also mentioned.

2. The points you have made are most important. You believe we can meet our infrastructure needs by reorganizing the Federal approach --

-- with more user charges,

-- with a more careful definition of the Federal role, and

-- with directing more Federal dollars into repair and renovation work.

If Federal programs were redesigned as you suggest, what is likely to be the cost impact on state and local governments?

3. What would be the one or two most effective things the Congress could do to strengthen the infrastructure of our nation?

## RESPONSES TO QUESTIONS FOR THE RECORD SUBMITTED BY SENATOR STAFFORD (PURSUANT TO LETTER OF JULY 20, 1983)

1. The impact of federal expenditures for infrastructure is probably best expressed in terms of the cost-effectiveness of those projects undertaken. Other considerations could include the overall amount of spending that results from federal aid (leverage of federal funds) or the degree of direct federal control over spending. The three approaches that you mention--infrastructure banks, block grants, and loan guarantees--would appear to have quite different effects when measured by each of these standards.

Cost-Effectiveness. The cost-effectiveness of an infrastructure investment can be measured by comparing its benefits and costs. For the private benefits, user fees that recover all or a major part of an infrastructure investment from those who directly benefit would provide a market test of relative cost effectiveness. Users' willingness to pay gives an indication that benefits exceed costs. User fees could apply to all three financing approaches, but they appear most suitable to infrastructure banks. (Repayment by users is less applicable for public benefits, of course.)

**Infrastructure banks** that would make loans secured by a future stream of user-fee revenues would help ensure that federal and state expenditures were made for cost-effective projects. Prospective users would only request loans for projects that satisfied real needs--those that users were willing to pay for. A community considering an expanded water supply system, for example, would apply for a loan to perform the expansion only if it expected growth in the community; in such a case, higher user fees collected from a larger population would cover loan payments. There would be an incentive to avoid casual expansion, however, because the water fees of parties currently on the system might double or triple to pay off the loan.

**Block grants** can also encourage effective project selection by letting state and local governments concentrate funds on projects that meet the most extreme local needs. But block grants also give states authority to subsidize groups of users if they so desire. Though subsidies can alleviate certain user groups' inability to pay, they can also stimulate demand for goods and services, artificially inflating estimates of needs. This, in turn, can result in choosing less cost-effective projects. **Loan guarantees** by themselves provide few incentives for the selection of cost-effective projects.

Total Infrastructure Spending. Simply spending more on public works infrastructure is not a goal in itself. Nevertheless, the ability of federal aid to influence the amount of investment by other levels of government is a consideration in financial management.

State infrastructure banks, as defined by S.532, are likely to provide considerable leverage for federal funds for three reasons. First, the federal contribution to state banks would have to be matched by state contributions on a dollar-for-dollar basis. Second, loans could be made for only a portion of total project cost. This would ensure that combined federal and state funds further leveraged local funds. Finally, infrastructure banks could use federal and state seed capital to refinance local debt, to guarantee or ensure local obligations, or simply to provide debt marketing assistance.

The leveraging ability of block grants depends on the nonfederal match required and the ability of states to deliver their share. A larger nonfederal match implies greater leverage, but only to the extent that states are able to raise matching capital. At some point, the leverage derived from increasing the nonfederal match would be offset by the inability of states to raise up-front capital.

Loan guarantees can also provide considerable leverage, in the sense that no federal outlays are required unless a loan goes into default. In the case of default, however, federal assumption of bad debts in the private market can be more costly than direct subsidies would have been in the first place.

Federal Control. The greatest degree of federal control over project selection is provided under the current system of categorical grants. Both infrastructure banks and block grants relinquish such control to the states. But if use of federal funds under either approach were defined narrowly under enabling legislation, some federal influence could be retained. For instance, block grants could be restricted to projects in particular areas such as water resources or highways, rather than be made available for all types of infrastructure investments. Loan guarantees can afford a high degree of federal control, depending on the requirements imposed to receive a federal guarantee. They can also be used indiscriminately, covering not only economically sound investments but also uneconomic ones.

2. The CBO infrastructure study did not include a detailed analysis of the overall impact on state and local governments. Rather, within the study of each public works area, such impacts were highlighted as policy options were considered. State and local spending could increase or decrease within a given program, depending on which federal options were pursued and the degree to which states responded.

In water resources, for instance, if a federal loan program were established to replace line-item appropriations for intrastate projects, no immediate additional state or local spending would be required. In fact, some projects now financed by the states could instead be financed with federal loans, thus reducing state outlays. States would eventually have to repay portions of some types of projects (flood control, fish and wildlife enhancement, or water quality, for example), which over a 50-year period could impose higher state taxes or require state borrowing. For other types of projects (water supply, hydroelectric, irrigation, or recreation), users would repay loans, and states would experience no budgetary impacts.

In airports, more effective application of user fees would directly offset federal outlays. State and local budgets would be unaffected. User fees, however, could have secondary effects, such as diverting general aviation traffic away from large hub airports and toward smaller reliever airports. Though this could result in greater costs and some inconvenience to recreational flyers, local airport revenues, thus local tax revenues, could increase.

On the other hand, there are several areas in which state and local spending might have to increase. In water supply, for example, continuing the currently modest federal role would result in higher local spending to meet estimated needs. Such increases in spending--up to $15 billion a year for all localities combined--could be largely offset with increased local water rates. In highways, withdrawing federal aid for local road construction could result in higher state or local spending. States or localities would probably fund those routes that were likely to carry the most traffic, while they would forgo construction on less cost-effective routes.

3. In CBO's paper on infrastructure, we examined three federal strategies that, in combination, could strengthen the nation's infrastructure:

   - Greater use of federal fees to recover the costs of investments that benefit private parties;
   - A realignment of federal spending with emphasis on national needs and a greater reliance on local support for local investments; and
   - Adjustment of the current bias toward capital-intensive projects.

User fees can result in services that are self-financing in the long term while helping guide future investments toward the most needed projects. These concepts form the basis of several current proposals such as S. 532 that call for user-fee repayment of state infrastructure bank loans. Federal user fees are most applicable for investments in highways, water resources, air traffic control, and airport expansion.

With a a more strictly defined federal role, funds could be released for investments that are clearly national in scope. Depending on the program, a limited federal role could encourage localities to assign priorities to their own investments and afford them greater lattitude in dealing with their own needs. Limiting the federal role is applicable in highways, public transit, water resources, airports, and municipal water supply. For example, local responsibility for airport funding could lead states to make more cost-effective investment decisions on airport expansion while the federal government redirected local airport funding toward modernizing outmoded air traffic control equipment.

The goal of a strategy to redirect federal spending would be to promote more effective use of federal money and reduce possible capital-intensive biases in investment decisions. Today, with the nation's infrastructure systems largely built, continued emphasis on new construction can induce states and localities to neglect needed repairs. For example, the 80 percent federal matching grants available for new transit bus purchases have led many local transit authorities to ignore the economic merits of rehabilitating older buses. Redirected federal assistance would be generally effective in highways, public transit, wastewater treatment, and water resources.

STATEMENT OF

PAMELA P. PLUMB

COUNCILOR, PORTLAND, MAINE

ON BEHALF OF

THE NATIONAL LEAGUE OF CITIES

AND

THE U.S. CONFERENCE OF MAYORS

ON THE

"JOINT SURVEY ON CAPITAL BUDGETING AND INFRASTRUCTURE"

BEFORE THE

COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS

U.S. SENATE

JULY 15, 1983

GOOD MORNING, MR. CHAIRMAN AND DISTINGUISHED MEMBERS OF THE COMMITTEE. I AM PAMELA PLUMB, COUNCILOR OF THE CITY OF PORTLAND, MAINE. I APPRECIATE THE OPPORTUNITY TO APPEAR BEFORE YOU TODAY AS A REPRESENTATIVE OF BOTH THE NATIONAL LEAGUE OF CITIES -- WHERE I SERVE AS VICE CHAIR OF THE COMMUNITY AND ECONOMIC DEVELOPMENT COMMITTEE AND A MEMBER OF THE INFRASTRUCTURE TASK FORCE -- AND THE U.S. CONFERENCE OF MAYORS -- WHERE I WAS A MEMBER OF THE TRANSPORTATION COMMITTEE WHEN I WAS MAYOR OF MY CITY IN 1980-81.

I AM HERE TODAY TO SHARE WITH YOU THE RESULTS OF THE JOINT SURVEY ON CAPITAL BUDGETING AND INFRASTRUCTURE, CONDUCTED BY THE LEAGUE OF CITIES AND CONFERENCE OF MAYORS FROM DECEMBER 1982 TO APRIL 1983. COPIES OF THE REPORT ON THE SURVEY WERE CIRCULATED TO YOU EARLIER FOR YOUR REVIEW.

MY TESTIMONY TODAY WILL COVER, FIRST, A BRIEF INTRODUCTION TO THE SURVEY; SECOND, A DESCRIPTION OF WHAT WE LEARNED ABOUT CITY GOVERNMENTS' CAPITAL BUDGETING PRACTICES; THIRD, AN ANALYSIS OF THE PRIORITIES THAT THE SURVEY RESPONDENTS SELECTED FROM AMONG THE TYPES OF INFRASTRUCTURE FACILITIES THAT NEED MAJOR WORK IN THEIR CITIES; FOURTH, A SUMMARY OF THE SURVEY'S FINDINGS REGARDING THE PHYSICAL CONDITION OF NINETEEN DIFFERENT TYPES OF PUBLIC FACILITIES AS WELL AS THE RESPONDING CITIES' ABILITY TO FINANCE NECESSARY IMPROVEMENTS IN THESE FACILITIES; FIFTH, AN ANALYSIS OF THE COST RANGES WHICH RESPONDENTS TOLD US WOULD COVER THE EXPENSE OF UNDERTAKING THE PRIORITY NEEDS OF THEIR CITIES; AND FINALLY, SOME POLICY RECOMMENDATIONS FOR YOUR REVIEW. WE

BELIEVE THESE RECOMMENDATIONS CAN BE DRAWN FROM THE SURVEY AND COULD BE HELPFUL AS THE COMMITTEE CONSIDERS LEGISLATIVE INITIATIVES IN THE INFRASTRUCTURE AREA.

## ABOUT THE SURVEY

OF THE NATION'S VAST AND COMPLICATED INFRASTRUCTURE NETWORK, THIS STUDY REPORTS ONLY ON CERTAIN CAPITAL FACILITIES WHICH ARE THE RESPONSIBILITY OF MUNICIPAL GOVERNMENTS. IT ALSO REPORTS ON HOW CITIES CARRY OUT THAT RESPONSIBILITY. IT IS ONE OF THE MOST COMPREHENSIVE STUDIES OF LOCAL GOVERNMENT CAPITAL INVESTMENT PRACTICES AND PRIORITIES EVER UNDERTAKEN.

APPROXIMATELY 1,400 CITY GOVERNMENTS WERE SURVEYED DURING DECEMBER 1982 - FEBRUARY 1983. A TOTAL OF 809 RESPONSES WERE RECEIVED BY MARCH 1 AND WERE ANALYZED FOR THIS REPORT. RESPONSES WERE RECEIVED FROM CITIES IN EVERY REGION AND EVERY POPULATION CATEGORY.

THIS REPORT IS DELIBERATELY TITLED AN "INITIAL ASSESSMENT." SEVERAL DOZEN COMMUNITIES RETURNED SURVEY QUESTIONNAIRES AFTER DATA RUNS HAD BEGUN. THESE ADDITIONAL RESPONSES CAN BE INCLUDED IN LATER ANALYSES. MOREOVER, OUR ANALYSES SUGGEST STILL FURTHER RESEARCH THAT CAN BE DONE WITH THIS DATA.

THE INFORMATION GATHERED BY THIS SURVEY IS SIGNIFICANT -- AND, INDEED, WE BELIEVE UNPRECEDENTED -- AND DESERVES CONSIDERABLE FURTHER RESEARCH. WE HAVE NOT HAD TIME, FOR EXAMPLE, TO CROSS-TABULATE THE ANSWERS TO THE SURVEY QUESTIONNAIRES BY SOME MEASURE OF CITY DISTRESS. ELIGIBILITY FOR THE UDAG PROGRAM COULD SERVE AS SUCH A MEASURE.

I WANT ALSO TO NOTE EXPLICITLY THAT RESEARCH OF THIS SORT SHOULD BE DONE ON CAPITAL FACILITIES THAT ARE THE RESPONSIBILITY OF FEDERAL AND STATE GOVERNMENTS, AS WELL AS LOCAL GOVERNMENTS OTHER THAN MUNICIPALITIES.

A SWEEPING PICTURE OF LOCAL INFRASTRUCTURE NEEDS AND CAPITAL BUDGETING PRACTICES EMERGES FROM THE SURVEY. THE SURVEY PRESENTS SEVERAL MAJOR FINDINGS WHICH MUST AFFECT ANY CONSIDERATION OF THE NEXT DECADE'S APPROACH TO PUBLIC CAPITAL INVESTMENT. I NOW WANT TO SHARE THOSE FINDINGS WITH YOU.

CAPITAL BUDGETING

WE FOUND THAT CITIES MAKE THEIR DECISIONS ABOUT CAPITAL INVESTMENT NEEDS THROUGH AN ORDERLY PROCESS. OVER 90 PERCENT OF THE 809 RESPONDENTS REPORTED THAT THEY EITHER HAVE A CAPITAL BUDGETING PROCESS OR A SUBSTITUTE WHICH ACCOMPLISHES THE SAME PURPOSE.

NEARLY ALL THESE CAPITAL BUDGETS ARE APPROVED BY CITY COUNCILS, AND 88 PERCENT OF THE RESPONDENTS SAID THESE BUDGETS COVER ALL CITY DEPARTMENTS. THE SURVEY REVEALS WIDESPREAD USE OI A VARIETY OF MECHANISMS TO SOLICIT PUBLIC COMMENT ON CAPITAL BUDGETS. ALMOST 84 PERCENT OF THE RESPONDING CITIES USE PUBLIC HEARINGS AND SIGNIFICANT PERCENTAGES USE OTHER TECHNIQUES AS WELL, SUCH AS SPECIAL OR GENERAL PURPOSE ADVISORY BOARDS.

ECONOMIC DEVELOPMENT PLAYS A SIGNIFICANT ROLE IN LOCAL CAPITAL BUDGETING AND PLANNING.

NATIONAL ECONOMIC RECOVERY AND DEVELOPMENT REQUIRE BASICALLY SOUND LOCAL INFRASTRUCTURE. THIS SURVEY SHOWS THAT RESPONDENTS HAVE GRASPED THIS FACT AND THAT IT PLAYS A ROLE IN SHAPING THE LOCAL BUDGET PLANNING PROCESS, AS WELL AS IN THE SELECTION OF PRIORITIES.

WHEN ASKED TO CITE THE REASON FOR CHOOSING PRIORITIES FOR PUBLIC FACILITIES WORK, THE RESPONDENTS CITED PROTECTION OF PUBLIC HEALTH AND SAFETY AND PROVISION OF ESSENTIAL SERVICES MOST FREQUENTLY. THIS REFLECTS THE FACT THAT LOCAL GOVERNMENTS ARE STILL FIRST AND FOREMOST THE PROVIDERS OF SERVICES AND PROTECTORS OF PUBLIC HEALTH AND SAFETY. BUT THE THIRD MOST FREQUENTLY CITED REASON FOR CHOOSING A PRIORITY WAS ECONOMIC DEVELOPMENT, BY A WIDE MARGIN.

MOREOVER, 492 RESPONDENTS (OR 60.8 PERCENT OF THE TOTAL) REPORTED THAT ECONOMIC DEVELOPMENT IS TAKEN INTO CONSIDERATION WHEN PLANNING A CAPITAL BUDGET.

WE BELIEVE THESE FINDINGS POINT TO A LOCAL BASE OF ACTIVITIES AND ATTITUDES REGARDING THE RELATIONSHIP BETWEEN PUBLIC CAPITAL INVESTMENT AND ECONOMIC DEVELOPMENT THAT CAN BE BUILT UPON IN FEDERAL POLICY AND PROGRAMS. FEDERAL ASSISTANCE FOR PUBLIC FACILITIES THAT ARE RELATED TO ECONOMIC DEVELOPMENT WOULD NOT ONLY HELP LOCALITIES ADDRESS SOME OF THEIR HIGHEST PRIORITY NEEDS, BUT WOULD ALSO CONTRIBUTE TO NATIONAL ECONOMIC GROWTH.

RESPONDENTS WERE ASKED WHETHER OR NOT EACH OF FOUR CATEGORIES OF CAPITAL IMPROVEMENT WORK IS INCLUDED IN THEIR CAPITAL BUDGETS. THE FREQUENCIES WITH WHICH RESPONDENTS SAID EACH CATEGORY IS INCLUDED IN THEIR BUDGETS IS SUMMARIZED IN THIS TABLE.

| | |
|---|---|
| PREVENTIVE MAINTENANCE | 43.4 PERCENT SAID THIS IS INCLUDED IN THEIR BUDGET |
| MAJOR MAINTENANCE | 76.8 PERCENT |
| REHABILITATION/RECONSTRUCTION | 92.0 PERCENT |
| EXPANSION/NEW CONSTRUCTION | 94.7 PERCENT |

RESPONDENTS INDICATED THAT THEY RELY ON DIFFERENT FINANCING MECHANISMS FOR EACH OF THESE DIFFERENT CATEGORIES OF INFRASTRUCTURE WORK. TAKEN TOGETHER, THESE RESPONSES SHOW THAT RESPONDING CITIES MAKE AN IMPORTANT DISTINCTION IN THEIR CAPITAL BUDGETING: LOCAL TAXES ARE USED PRIMARILY TO FINANCE MAINTENANCE, AND DEBT IS PRIMARILY USED TO FINANCE MAJOR REHABILITATION, EXPANSION AND NEW CONSTRUCTION.

LARGE MAJORITIES OF THE RESPONDING CITIES INDICATED THAT THEY VIEW THE LOCAL CAPITAL BUDGETING PROCESS AS EFFECTIVE WITH REGARD TO A BROAD ARRAY OF CRITERIA. AT THE SAME TIME THE RESPONDENTS INDICATED THAT THEIR PROCESSES COULD BE IMPROVED, AND SUCH AREAS AS NEEDS ASSESSMENT, ANALYSIS OF FINANCING OPTIONS, AND DEVELOPMENT OF PRIORITIES ALL RECEIVE HIGH RESPONSES AS AREAS WORTH IMPROVING.

RESPONDENTS FELT THAT ALL LEVELS OF GOVERNMENT HAVE A ROLE IN FINANCING IMPROVEMENT TO LOCAL CAPITAL BUDGETING PROCESSES, WITH 85 PERCENT CITING A LOCAL RESPONSIBILITY, 65 PERCENT A STATE RESPONSIBILITY, AND 52 PERCENT A FEDERAL RESPONSIBILITY.

THE NATIONAL LEAGUE OF CITIES AND U.S. CONFERENCE OF MAYORS URGE THE COMMITTEE TO CONSIDER SERIOUSLY THIS FINDING OF THE SURVEY. WE STRONGLY RECOMMEND THAT FUNDING ASSISTANCE FOR THE IMPROVEMENT OF LOCAL CAPITAL BUDGETING PROCESSES BE INCLUDED IN ANY FEDERAL INFRASTRUCTURE PROGRAM.

## INFRASTRUCTURE PRIORITIES

RESPONDENTS WERE ASKED TO CHOOSE, FROM AMONG NINETEEN TYPES OF FACILITIES, THE THREE THAT ARE THE HIGHEST PRIORITIES FOR CAPITAL EXPENDITURES IN THEIR COMMUNITIES. PRIORITIES VARY AMONG DIFFERENT TYPES OF CITIES, BUT WHEN THE THREE TOP PRIORITIES FOR ALL RESPONDING CITIES ARE COMBINED (WITHOUT WEIGHTING FOR FIRST, SECOND, OR THIRD PLACES), THE CATEGORY OF "STREETS AND ROADS" IS DEFINITELY THE PRIORITY MOST OFTEN SELECTED. THE SIX FACILITY TYPES MOST FREQUENTLY SELECTED AS PRIORITIES BY RESPONDENTS ARE AS FOLLOWS. (THE "COUNT" IS THE NUMBER OF TIMES THAT FACILITY TYPE WAS SELECTED AS A FIRST, SECOND, OR THIRD PRIORITY.)

| FACILITY TYPE | PRIORITY COUNT |
|---|---|
| STREETS AND ROADS | 518 |
| STORMWATER COLLECTION | 309 |
| WASTEWATER TREATMENT | 228 |
| SEWAGE COLLECTION | 216 |
| PUBLIC BUILDINGS | 197 |
| WATER DISTRIBUTION | 152 |

THE OTHER FACILITY TYPES HAVE "COUNTS" OF 106 OR LESS.

IDENTIFICATION OF THESE PRIORITIES IS A MAJOR FINDING OF THE SURVEY, BUT THESE ARE DIFFERENCES AMONG TYPES OF CITIES AS REGARDS THEIR PRIORITIES. THESE RESULTS MUST ALSO BE VIEWED IN THE CONTEXT OF OTHER MAJOR FINDINGS -- WHICH I WILL REPORT ON LATER IN THIS STATEMENT -- THAT EMPHASIZE THE VARIATION AMONG CITIES IN THE ABILITY TO FINANCE AND THE CONDITION OF PUBLIC CAPITAL FACILITIES. THIS STRONGLY SUPPORTS THE VIEW THAT ANY NATIONAL EFFORT IN THIS AREA SHOULD RELY PRIMARILY ON LOCAL PLANNING AND LOCAL PRIORITIES, WITHIN BROAD NATIONAL PURPOSES.

THE SURVEY ASKED HOW LONG IT WOULD TAKE TO BEGIN WORK ON THE PRIORITY PROJECTS IF SUFFICIENT FUNDS WERE AVAILABLE TO FINANCE THE WORK. WHEN ALL THE FIRST, SECOND, AND THIRD PRIORITIES ARE ACCUMULATED (WITHOUT WEIGHTING), IT IS CLEAR THAT THE VAST MAJORITY OF THE RESPONDENTS PROJECT START-UP TIMES FOR THESE PRIORITIES OF UNDER SIX MONTHS.

| START TIME | COUNT |
|---|---|
| UNDER 3 MONTHS | 799 |
| 4 TO 6 MONTHS | 833 |
| 7 TO 12 MONTHS | 549 |
| OVER 1 YEAR | 152 |

A MAJOR QUESTION WHICH ALWAYS ARISES WHEN PUBLIC WORKS SPENDING IS DISCUSSED IS WHO WOULD DO THE ACTUAL WORK: PUBLIC EMPLOYEES OR PRIVATE SECTOR WORKERS UNDER CONTRACTS?

THE SURVEY ASKED CITIES TO INDICATE HOW THEY WOULD UNDERTAKE THEIR PRIORITY PROJECTS -- THROUGH CITY EMPLOYEES, THROUGH CONTRACTING OUT THE WORK, OR THROUGH SOME COMBINATION OF THE TWO. WHEN RESPONDENTS' ANSWERS ARE TOTALED (WITHOUT WEIGHTING), THE UNEQUIVOCAL ANSWER IS THAT *CITIES WOULD CONTRACT OUT THE WORK IN THE VAST MAJORITY OF THE CASES*.

THIS IS A MAJOR FINDING. IT SHOWS CONCLUSIVELY THAT *INVESTMENT IN LOCAL INFRASTRUCTURE WORK TRANSLATES DIRECTLY INTO JOBS IN THE PRIVATE SECTOR*. THIS FINDING SHOULD END ANY CHARGES THAT URBAN INFRASTRUCTURE FUNDING WOULD MEAN MASSIVE PATRONAGE AND PUBLIC HIRING OR DISTORTIONS IN THE BALANCE BETWEEN PUBLIC OR PRIVATE EMPLOYMENT.

### CONDITION OF PUBLIC FACILITIES

THE SURVEY ASKED RESPONDENTS TO CHARACTERIZE THE PHYSICAL CONDITION OF 19 TYPES OF PUBLIC FACILITIES. RESPONDENTS COULD CHOOSE ONE OF SIX CHARACTERIZATIONS -- RANGING FROM "IN GOOD CONDITION" THROUGH VARIOUS LEVELS OF NEEDED WORK TO "DOES NOT APPLY TO THIS CITY" -- FOR EACH OF THE 19 FACILITY TYPES. IN ADDITION, ALL OF THESE RESULTS COULD BE CROSS-TABULATED BY REGION, POPULATION SIZE, AND CITY TYPE, GENERATING A VERY LARGE DATA BASE.

THE INFORMATION GENERATED BY THIS QUESTION IS EXTREMELY RICH. IT IS IMPOSSIBLE TO CHARACTERIZE THE FINDINGS ADEQUATELY IN A SHORT SUMMARY. HOWEVER, SOME MAJOR POINTS SHOULD BE NOTED.

FIRST, IN SIX OF THESE FACILITIES A MAJORITY OF THE RESPONDENTS SAID THAT SIX OF THESE FACILITIES WERE "IN GOOD CONDITION". THESE FACILITY TYPES WERE:

| | |
|---|---|
| ● COMMUNITY SOCIAL SERVICE FACILITIES | 58.8 PERCENT SAID "IN GOOD CONDITION" |
| ● PARKS AND RECREATIONAL FACILITIES, OPEN SPACE | 55.7 PERCENT |
| ● WATER STORAGE | 54.8 PERCENT |
| ● PUBLIC BUILDINGS | 54.4 PERCENT |
| ● WATER TREATMENT | 50.6 PERCENT |
| ● TRAFFIC CONTROL EQUIPMENT | 50.3 PERCENT |

HOWEVER, FOR 10 OF THE FACILITY TYPES AT LEAST 30 PERCENT OF THE RESPONDENTS SAID THEY REQUIRED MAJOR WORK. THERE IS SOME OVERLAP BETWEEN THE FIRST AND SECOND GROUP, INDICATING THE VARIETIES OF LOCAL SITUATIONS:

| | |
|---|---|
| ● STREETS AND ROADS | 70.4 PERCENT SAID MAJOR WORK NEEDED |
| ● SIDEWALKS AND CURBS | 69.9 PERCENT |
| ● STORM WATER COLLECTION AND DRAINAGE | 67.4 PERCENT |
| ● SEWAGE COLLECTION | 49.8 PERCENT |
| ● BRIDGES, OVERPASSES AND VIADUCTS | 44.9 PERCENT |
| ● PUBLIC BUILDINGS | 42.9 PERCENT |
| ● TRAFFIC CONTROL EQUIPMENT | 39.0 PERCENT |
| ● PARKS, RECREATION FACILITIES, OPEN SPACE | 35.0 PERCENT |
| ● WASTEWATER TREATMENT | 34.7 PERCENT |
| ● WATER DISTRIBUTION | 31.3 PERCENT |

FINALLY, IN SIX OF THE FACILITY TYPES, AT LEAST 25 PERCENT OF THE RESPONDENTS REPORTED THAT THE FACILITY TYPES "DID NOT APPLY TO THIS CITY:"

| | |
|---|---|
| ● DOCKS, WHARVES, AND PORTS | 77.9 PERCENT SAID IT DIDN'T APPLY |
| ● PUBLIC TRANSPORTATION FACILITIES | 64.3 PERCENT |
| ● PUBLIC TRANSPORTATION ROLLING STOCK | 63 PERCENT |
| ● PUBLIC SCHOOL BUILDINGS | 56.9 PERCENT |
| ● SOLID WASTE DISPOSAL FACILITIES AND RESOURCE RECOVERY FACILITIES | 40.8 PERCENT |
| ● WATER TREATMENT | 27 PERCENT |

THIS LAST FINDING BEARS FURTHER ANALYSIS. THE SURVEY DATA COLLECTED DO NOT SUPPORT ANY FIRM CONCLUSIONS AS TO WHY THESE CATEGORIES ARE SO OFTEN CHARACTERIZED AS "NOT APPLICABLE." IT SEEMS REASONABLE, HOWEVER, TO SPECULATE THAT IN MANY CASES, CONTROL OVER THESE FACILITIES RESTS WITH INDEPENDENT BOARDS OR AUTHORITIES, SUCH AS SCHOOL BOARDS. THUS, CAPITAL BUDGET NEEDS WOULD NOT NECESSARILY SHOW UP IN CITY BUDGETS.

SECOND, SOME OF THESE FACILITIES MAY BE OPERATED BY THE PRIVATE SECTOR.

FINALLY, IT IS POSSIBLE THAT MANY OF THE CITIES SIMPLY DID NOT HAVE THESE FACILTIIES IN THEIR JURISDICTIONS. THIS IS CERTAINLY LIKELY IN THE CASE OF PUBLIC TRANSPORTATION OR DOCKS AND WHARVES.

THERE ARE SOME DISCERNIBLE DIFFERENCES IN THE RESPONSES FROM DIFFERENT REGIONS, DIFFERENT SIZED CITIES, AND DIFFERENT CITY TYPES. THESE ARE DISCUSSED IN GREATER DETAIL THROUGHOUT THE REPORT. WE HAVE PROVIDED AN ESPECIALLY DETAILED ANALYSIS OF THESE DIFFERENCES FOR THE SIX HIGH PRIORITY FACILITY TYPES THAT I MENTIONED EARLIER. HOWEVER, WE MUST STRESS: NO REGION, NO POPULATION CLASS, AND NO CITY TYPE EMERGES A CLEAR WINNER OR A CLEAR LOSER IN THIS MATTER. CITIES FROM EVERY CLASSIFICATION REPORT DIFFICULTIES WITH SOME FACILITIES. LOCAL INFRASTRUCTURE NEEDS AND PRIORITIES VARY WIDELY AMONG CITIES.

## ABILITY TO FINANCE CAPITAL PROJECTS

THE SURVEY ALSO ASKED RESPONDENTS TO CHARACTERIZE THEIR ABILITY TO FINANCE NECESSARY WORK ON EACH OF THE 19 TYPES OF PUBLIC FACILITIES. RESPONDENTS COULD CHOOSE ONE OF SIX POSSIBLE RESPONSES -- RANGING FROM "POSSIBLE TO FINANCE OUT OF OWN RESOURCES AS A MATTER OF COURSE" THROUGH VARYING DEGREES OF NEED FOR ASSISTANCE FROM STATE OR FEDERAL GOVERNMENTS TO "NOT IN THE MUNICIPAL BUDGET" -- FOR EACH OF THE 19 FACILITY TYPES.

FIRST, IN FIVE OF THESE FACILITY TYPES, A MAJORITY OF THE RESPONDENTS SAID THEY COULD FINANCE NECESSARY WORK OUT OF THEIR OWN RESOURCES EITHER AS A MATTER OF COURSE OR WITH DIFFICULTY--

| | |
|---|---|
| ● PUBLIC BUILDINGS | 67.8 PERCENT |
| ● SIDEWALKS AND CURBS | 63.3 PERCENT |
| ● WATER DISTRIBUTION | 57.8 PERCENT |
| ● WATER STORAGE | 53.4 PERCENT |
| ● TRAFFIC CONTROL EQUIPMENT | 50.3 PERCENT |

HOWEVER, FOR EIGHT OF THE FACILITY TYPES, AT LEAST 30 PERCENT OF THE RESPONDENTS SAID THAT THEY REQUIRED SOME DEGREE OF STATE OR FEDERAL AID TO FINANCE THE NECESSARY WORK. THERE IS SOME OVERLAP BETWEEN THE FIRST AND SECOND GROUPS, THUS INDICATING THE DIFFERENCES IN LOCAL SITUATIONS. THIS SECOND GROUP INCLUDES:

| | |
|---|---|
| ● STREETS AND ROADS | 62.0 PERCENT |
| ● WASTEWATER TREATMENT | 54.5 PERCENT |
| ● BRIDGES, OVERPASSES, VIADUCTS | 54.4 PERCENT |
| ● PARKS, RECREATIONAL FACILITIES OPEN SPACE | 49.2 PERCENT |
| ● STORMWATER COLLECTION AND DRAINAGE | 48.3 PERCENT |
| ● SEWAGE COLLECTION | 41.1 PERCENT |
| ● TRAFFIC CONTROL EQUIPMENT | 38.6 PERCENT |
| ● SIDEWALKS AND CURBS | 31.4 PERCENT |

FINALLY, IN SIX OF THE FACILITY TYPES, AT LEAST 25 PERCENT OF THE RESPONDENTS REPORTED THAT THE FACILITY TYPE IS "NOT IN THE MUNICIPAL BUDGET." THESE FACILITY TYPES ARE:

| | |
|---|---|
| ● PUBLIC HOSPITALS AND CLINICS | 60.8 PERCENT |
| ● DOCKS, WHARVES AND PORTS | 57.7 PERCENT |
| ● PUBLIC SCHOOL BUILDINGS | 53.8 PERCENT |
| ● PUBLIC TRANSPORTATION FACILITIES | 50.1 PERCENT |
| ● PUBLIC TRANSPORTATION ROLLING STOCK | 48.9 PERCENT |
| ● SOLID WASTE DISPOSAL FACILITIES AND RESOURCES RECOVERY FACILITIES | 29.2 PERCENT |

THE OVERLAP AMONG CATEGORIES AND THE VARIETY OF RESPONSES AMONG DIFFERENT TYPES OF RESPONDING CITIES UNDERLINES ANOTHER MAJOR, OVERRIDING FINDING OF THIS SURVEY: THE ABILITY TO FINANCE NECESSARY INFRASTRUCTURE WORK VARIES WIDELY AMONG CITIES.

AS BEFORE, SOME REGIONS REPORT THEY CAN FINANCE SOME FACILITIES MORE EASILY THAN OTHERS. SMALL CITIES REPORT MORE OFTEN THEY NEED ASSISTANCE WITH SOME TYPES OF WORK; LARGE CITIES DO SO FOR OTHER TYPES. THE SAME HOLDS TRUE FOR THE TYPE OF CITY RESPONDING. THESE DIFFERENCES ARE EXPLAINED IN GREATER DETAIL IN THE REPORT. THE STRIKING FINDING IS THAT CITIES FROM EVERY REGION, FORM EVERY SIZE CLASSIFICATION, AND FROM EVERY CITY TYPE REPORT THAT THEY NEED ASSISTANCE FOR SOME INFRASTRUCTURE NEEDS, WHILE THEY CAN FINANCE OTHERS LOCALLY.

## COST RANGES FOR THE PRIORITIES

RESPONDENTS WERE ASKED TO CHOOSE THE MOST APPROPRIATE COST RANGE FOR THE CAPITAL COSTS OF THEIR PRIORITY PROJECTS. WHEN THE RESPONSES TO ALL THE RANGES CITED FOR ALL THE PRIORITIES ARE ADDED TOGETHER, IT BECOMES CLEAR THAT THE "$1.0 MILLION TO $5.0 MILLION" RANGE IS BY FAR THE MOST FREQUENT CHOICE:

| COST RANGE | COUNT |
|---|---|
| UNDER $0.5 MILLION | 291 |
| $0.5 MILLION TO $1.0 MILLION | 380 |
| $1.0 MILLION TO $5 MILLION | 728 |
| $5.0 MILLION TO $10.0 MILLION | 378 |
| $10 MILLION TO $20 MILLION | 268 |
| $20 MILLION TO $50 MILLION | 180 |
| $50 MILLION AND OVER | 150 |

THIS INFORMATION DOES NOT PERMIT ANY ANALYSIS OF A TOTAL "BOTTOM LINE" FIGURE FOR URBAN INFRASTRUCTURE NEEDS. THE REPORT DOES NOT PROVIDE ONE, AND OUR STATISTICAL ADVISORS TELL US THAT NO ONE SHOULD TRY TO DO SO USING THESE FIGURES.

THE RESPONSES TO THIS QUESTION DO SHOW THAT AMONG THE RESPONDENTS TO THIS SURVEY, THE MOST PREVALENT COST RANGE FOR SELF-SELECTED PRIORITY INFRASTRUCTURE PROJECTS IS BETWEEN $1 MILLION AND $5 MILLION.

THIS IS AN IMPORTANT FINDING IN ITS OWN RIGHT. TOTAL PUBLIC FACILITIES NEEDS ACROSS THE COUNTRY UNDOUBTEDLY ARE QUITE FORMIDABLE. AT THE LOCAL LEVEL, HOWEVER, THE SPECIFIC NEEDS FOR INDIVIDUAL HIGH PRIORITY PROJECTS CAN BE LESS DAUNTING IN THEIR MAGNITUDE.

ALSO, THE WIDE DISTRIBUTION OF RESPONSES AMONG ALL THE POSSIBLE COST RANGES LEADS TO ANOTHER MAJOR FINDING OF THE SURVEY: THE RANGE OF COSTS AMONG CITIES FOR UNDERTAKING NECESSARY WORK ON PRIORITY INFRASTRUCTURE NEEDS VARIES WIDELY AMONG THE RESPONDING CITIES.

THERE IS NO QUESTION THAT A COMPLETE INVENTORY OF ALL NECESSARY WORK ON LOCAL CAPITAL FACILITIES WOULD GIVE RISE TO A LARGE TOTAL PRICE TAG FOR REFURBISHING AMERICA'S URBAN INFRASTRUCTURE. WE CANNOT GIVE YOU SUCH A TOTAL. THE SURVEY DID NOT ATTEMPT TO GENERATE ONE.

THE SURVEY DOES DEMONSTRATE THAT THERE IS A CLEAR NEED FOR ASSISTANCE AT THE STATE AND FEDERAL LEVEL IF WE EXPECT THESE NEEDS TO BE MET.

THERE IS NO INEXPENSIVE, QUICK OR EASY SOLUTION TO THE PROBLEM OF URBAN INFRASTRUCTURE. IT HAS TAKEN YEARS TO DEVELOP, AND WILL ONLY BE CONQUERED BY AN EQUALLY LONG-TERM COMMITMENT BY ALL LEVELS OF GOVERNMENT.

THE SURVEY DOES SHOW, HOWEVER, THAT WE NEED NOT BE PARALYZED BY THE OVERALL MAGNITUDE OF THIS PROBLEM.

SIGNIFICANT PROGRESS COULD AND WOULD BE MADE IN MEETING PRIORITY NEEDS IF RELATIVELY MODEST AMOUNTS OF ASSISTANCE WERE AVAILABLE TO THE LOCAL LEVEL. MULTIPLIED ACROSS MANY JURISDICTIONS, THIS SURELY WILL ADD UP. HOWEVER, A START CAN BE MADE. A START SHOULD BE MADE.

## LEGISLATIVE RECOMMENDATIONS

THE U.S. CONFERENCE OF MAYORS AND THE NATIONAL LEAGUE OF CITIES BELIEVE THAT THIS LANDMARK SURVEY LEADS TO SOME PRELIMINARY RECOMMENDATIONS WHICH WOULD APPLY TO ANY LEGISLATIVE INITIATIVE.

FIRST, ANY FEDERAL EFFORT TO PROVIDE ASSISTANCE IN MEETING INFRASTRUCTURE NEEDS SHOULD PROVIDE FUNDS DIRECTLY TO LOCAL GOVERNMENTS. THIS SURVEY SHOWS THAT LOCAL GOVERNMENTS CAN AND DO PLAN RATIONALLY FOR THEIR CAPITAL EXPENDITURES. THEY KNOW WHAT THEIR NEEDS ARE AND WHERE THEIR PRIORITIES LIE. THERE IS A CLEAR AND JUSTIFIABLE NEED FOR DIRECT FEDERAL-CITY RELATIONSHIPS IN THIS AREA. ANY FUTURE LEGISLATION SHOULD EMBRACE THIS PRINCIPLE.

SECOND, THE SURVEY SHOWS THAT THESE LOCAL NEEDS VARY WIDELY. THEY DIFFER AMONG CITIES IN DIFFERENT REGIONS, OF DIFFERENT SIZES, AND OF DIFFERENT TYPES. FOR THIS REASON, ANY FEDERAL EFFORT IN THIS AREA SHOULD BE DESIGNED TO PROVIDE CONSIDERABLE LOCAL FLEXIBILITY IN THE PROGRAMMING AND USE OF FUNDS, WITHIN CLEAR NATIONAL OBJECTIVES.

THIRD, THE SURVEY SHOWS THAT INDIVIDIUAL HIGH PRIORITY PROJECTS CHOSEN BY THE RESPONDENTS CAN, IN MOST CASES, BE UNDERTAKEN WITH RELATIVELY MODEST AMOUNTS OF FUNDING. THUS, FEDERAL ASSISTANCE COULD MAKE A DIFFERENCE LOCALLY IF IT HELPED PROVIDE SUCH AMOUNTS, AND PROVIDED THEM CONSISTENTLY AND PREDICTABLY OVER TIME.

FOURTH, THE SURVEY SHOWS THAT RESPONDENTS FROM EVERY SIZE AND TYPES OF CITY GOVERNMENT IN EVERY REGION CAN IDENTIFY LEGITIMATE PUBLIC FACILITY NEEDS. FEDERAL LEGISLATION SHOULD BE DRAFTED TO ENSURE THAT NO PARTICULAR GROUP OF CITIES IS EXCLUDED FROM PARTICIPATING IN A NATIONAL EFFORT TO INCREASE INVESTMENT IN THESE FACILITIES.

FIFTH, THE SURVEY SHOWS THAT ECONOMIC DEVELOPMENT IS A SIGNIFICANT FACTOR IN LOCAL CAPITAL BUDGET PLANNING. HOWEVER, IT CLEARLY IS NOT THE MOST SIGNIFICANT FACTOR. TO THE EXTENT THAT THE CONGRESS AND THIS COMMITTEE WISH TO DIRECT NATIONAL RESOURCES TOWARDS REFURBISHING INFRASTRUCTURE TO INCREASE ECONOMIC PRODUCTIVITY AND GROWTH, HOWEVER, WE BELIEVE NATIONAL LEGISLATION COULD BE FASHIONED TO ENCOURAGE THIS. THE SURVEY SHOWS THAT THIS WOULD BE CONSISTENT WITH, AND NOT AT ODDS WITH, ALREADY EXISTING TRENDS.

SIXTH, WE STRONGLY RECOMMEND THAT FUNDING FOR THE IMPROVEMENT OF CAPITAL BUDGETING AND PLANNING PROCESSES AT THE LOCAL LEVEL BE INCLUDED IN ANY FEDERAL INFRASTRUCTURE AID PROGRAM. A MAJORITY OF THE CITIES SURVEYED SAID THEY WOULD SUPPORT SUCH ASSISTANCE, AND THAT SUCH AID WOULD BE HELPFUL IN IMPROVING LOCAL PROCESSES.

MR. CHAIRMAN, THANK YOU FOR THE OPPORTUNITY TO SHARE THIS IMPORTANT SURVEY WITH YOU. I WILL BE HAPPY TO ANSWER ANY QUESTIONS YOU MAY HAVE.

## RESPONSES OF COUNCILOR PAMELA PLUMB TO QUESTIONS SUBMITTED BY MEMBERS OF SENATE COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS

### Questions Submitted by Senator Stafford

1. There are two companies which offer insurance for investors in municipal bonds. This insurance is paid for by the issuer. It is not available to all issuers and, therefore, is of limited value for those cities with low credit rating, e.g., Cleveland.

   The effect of the insurance on an issuer's credit rating is mixed. Standard and Poor's will raise its rating on a bond issue because it is insured, but Moody's won't.

   An ironic by-product of the existence of bond insurance is increasing investor demand for it, even on issuers rated A and AA. This has the effect of increasing the issuance costs for cities, rather than lowering it. Since bonds are not offered with and without insurance, it is hard to determine the precise value of the insurance on rates. Insurance is probably most helpful to cities in the lower ranges of "investment grade" credit ratings. I don't think insurance will lift a "below-investment grade" rating up sufficiently to make it attractive to institutions, even if the insurance company would write the policy.

2. As the Joint Survey on Capital Budgeting and Infrastructure illustrates, there are no clear distinctions among cities concerning their need for assistance to undertake necessary infrastructure work. While specific

needs vary, and the magnitude of local problems is different, cities in every group we surveyed reported outstanding needs. We do not believe that a federal infrastructure program should exclude any type of city from participation. However, the League of Cities and Conference of Mayors agree that the terms of assistance could be varied to take into account varying degrees of fiscal health in cities. For instance, the federal share in an infrastructure grant program could be varied depending on certain distress criteria. Where loans are involved, differential repayment rates and terms could apply depending on the same factors. The Urban Development Action Grant program administered by HUD is available only to cities exhibiting certain levels of distress, but also provides that otherwise healthy cities can apply for assistance to undertake projects in and on behalf of residents of so-called "pockets of poverty." A similar standard could be applied to an infrastructure program to encourage the targetting of these funds into areas where assistance is most needed.

Similarly, an infrastructure program could operate with nationally established priorities for funding to carry out overall national goals. For instance, projects designed to retain or develop jobs, particularly for the hard-to-employ, could be given an advantage in funding. This would retain the local control over fund allocation which we feel is so vital while retaining clear national purposes for the use of the funds.

3. Our Joint Survey clearly shows that while states and local governments can and indeed do shoulder much of the burden for building, maintaining and repairing infrastructure facilities, they cannot carry this burden by themselves.

4. I would recommend that the Congress first adopt emergency legislation which would provide substantial new assistance for infrastructure work over a three-to-five year period to enable states and local governments to get on top of a growing crisis in public investment. The second course I would recommend is to carry out a tough review of federal programs and policies and to adopt reforms that will help over the long run to redirect federal spending programs and budget priorities to ensure continued attention to infrastructure problems.

5. I certainly wouldn't challenge the conclusions of Dr. Rivlin's study. There is no question that a better ordering of national spending patterns would greatly assist in meeting our infrastructure needs. However, it would be disingenuous to assume that such reforms will be forthcoming in the near future, or that the impending crisis we face in local government over decaying infrastructure will be alleviated by such reforms. From my perspective, it is clear that economic recovery in my city and others will be stymied until and unless we are able to invest the funds necessary to increase our public productivity. This means that targetted funding is necessary now. The reforms suggested by Dr. Rivlin should be pursued and their effects watched carefully. For now, however, it is important that Congress act quickly and decisively to address this question.

Questions from Senator Mitchell

1. The concept of user fees to finance infrastructure development is a sound one, and one which many of our cities pursue now. In the current fiscal climate, many cities have raised old user fees and created new ones to cope with rising costs. However, we must be realistic about this question.

Our Joint Survey reveals that user fees are not the most common form of financing any level of infrastructure work in the surveyed cities. This held true for preventive maintenance, major maintenance, repair or reconstruction, and new construction. At the same time, a 1982 League of Cities survey of local fiscal conditions showed that 71 percent of the surveyed cities raised existing user fees, and 38 percent imposed new ones.

One problem with user fees is that highly distressed cities, which are often those with the most severe problems, are ill-equipped to raise substantial additional revenue from their residents, since these are often the poorest people in the area with the least income to support higher fees for necessary services. Also, services provided in cities are available to all the people who use them, whether it is feasible to charge them fees or not. Should cities, for instance, convert their arterial roads to toll ways to raise the funds to maintain them? Should cities impose stiff license fees on interstate trucks who use their streets? These are very tough questions. They are especially hard to answer in a time when cities are struggling to participate in this modest economic recovery. They cannot successfully compete in a national and regional economy if they are forced to charge high fees for services which may be cheaper or even free elsewhere.

2. A Commission would certainly serve the useful function of keeping attention on infrastructure issues. It could help pave the way for the sort of structural change Dr. Rivlin suggested in her testimony. However, I don't believe that we need a Commission to tell us that action is necessary

now, in the short term, to help cities meet their immediate needs. We need action in this Congress to get the ball rolling.

3. The interests of cities can best be served in federal legislation by providing a direct federal-city relationship in the distribution of funds. This is critical, especially for large cities. Their needs are diverse and their capabilities sophisticated. We do not believe it is necessary or prudent to insert another level of government in the process. We urge the Committee to provide for this direct relationship, at least for larger cities with populations over 50,000. This would make your program compatible with other federal development funding such as the Community Development Block Grant.

   Where states are given the authority to administer these funds, federal legislation must explicitly require states to consult with affected local governments in the development of needs assessments and spending plans; to review final applications for assistance with them; and to provide clear avenues for local governments to comment on and appeal such spending plans to the federal level if necessary. Our experience with the Small Cities CDBG program adopted in 1981, where states administer these funds to smaller jurisdictions on HUD's behalf, has been less than satisfactory in many states. Appropriate safeguards are necessary.

4. Any distribution formula should take into account the factors of physical distress, such as unusually fast or slow growth, both of which place inordinate stress on existing infrastructure systems. Similarly, there should be some accounting for local efforts, to ensure that federal funds don't become merely a substitute for local funds. We have found that age of

housing provides a reasonably good proxy in many cities for overall aging in the physical plant of a city. We would recommend that the Committee examine the factors used in the UDAG and CDBG programs to distribute funds to find statistical factors which have successfully targetted those funds into communities with the greatest need.

5. We do not oppose priorities at the national level. In fact, we think it is essential that federal legislation clearly establish the national purposes being carried out in national legislation. These priorities, however, should not consist of federal directives to undertake only certain kinds of work, such as water, or sewers, to the exclusion of other possible needs at the local level. Instead, the federal government should focus on the goals of the program: economic recovery, health and safety, private sector leveraging, or whatever. It is within these priorities that local governments should be allowed to address their own most immediate concerns.

6. We can't tell you what the mix ought to be at the federal level. That's why local priority setting is such an important concept. However, I believe it entirely proper for the federal government to decide that it wishes to favor repair of existing facilities through varying the terms of assistance localities receive, so that a higher match might be required for new development than for rehabilitation. This would reflect a federal priority for using funds to save what we have, but would not exclude participation by communities with different needs or establish unrealistic quotas at the federal level for one sort of work or another.

7. Both the Conference of Mayors and the League of Cities strongly support a standby countercyclical program which would be triggered in the early phases of a cyclical downturn in the economy. However, we would not link the passage of an overall infrastructure assistance effort to anti-recession efforts. There is a need both for countercyclical efforts specifically designed to alleviate recession-produced unemployment and fiscal instability, and for an underlying, ongoing commitment to repairing and upgrading infrastructure at the state and local level.

NATIONAL SOCIETY OF PROFESSIONAL ENGINEERS

NSPE

# STATEMENT OF THE
# NATIONAL SOCIETY OF PROFESSIONAL ENGINEERS
# ON CAPITAL BUDGETING/INFRASTRUCTURE FINANCING LEGISLATION
# BEFORE THE
# COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS
# UNITED STATES SENATE

July 15, 1983

Mr. Chairman, I am James R. Borberg, General Manager of the Hampton Roads Sanitation District. I am here today on behalf of the National Society of Professional Engineers (NSPE), and I appreciate the opportunity to appear before the Committee to discuss three important legislative proposals, the Rebuilding of America Act of 1983 (S. 23), the Public Investment Incentive Act of 1983 (S. 532), and the Public Capital Investment Act of 1983, (S. 1330), as well as two major reports on the nation's infrastructure, one by the Congressional Budget Office and the other by the National League of Cities and U.S. Conference of Mayors.

Founded in 1934, NSPE represents 80,000 individuals from every field of the profession. We are organized as a federation, with state societies in all 50 states and more than 500 local chapters. One of our primary goals is to serve the public by offering engineering viewpoints on matters of public policy in which engineering background and expertise are pertinent. The current debate over the nation's infrastructure is certainly such an issue. Engineers

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AN EQUAL OPPORTUNITY EMPLOYER

in private practice, government, construction, and industry are involved in virtually every aspect of public works planning, construction, maintenance and repair. Our members design public works projects, supervise their construction, manage their operation, and often are held accountable for the performance of those facilities.

We wish to commend the Committee for the approach it is taking to this problem. We all have seen the intimidating statistics on the magnitude of our public works investment shortfall. The overall national need has been placed in the trillions of dollars. The miles of roadway, number of bridges, and other figures which represent construction, rehabilitation and repair needs over the next few decades seem overwhelming. Fortunately, the proposals and studies which are the subjects of today's hearing indicate that this Committee is confronting the infrastructure "crisis" in a reasoned, constructive manner, and is pursuing innovative solutions. I think the nation's engineers would agree with the conclusion reached by the League of Cities and Conference of Mayors in their study, where they stated that "a steady but manageable investment over a number of years" will allow us to meet our highest priority needs.

Mr. Chairman, I believe that two important generalizations can be made regarding our infrastructure problems.

The first general point relates to the diversity of this issue. As you well know, the term "infrastructure" refers to many different types of public facilities, each with its own funding mechanism and institutional arrangements. Furthermore, the governmental jurisdictions and other organizations which are responsible for planning, constructing, repairing, and maintaining our public works projects vary dramatically in their financial and technical capabilities. Any effort to address the overall problem must be adequately flexible to meet widely differing needs.

The second point relates to the Federal Government's role. While we must increase our overall national investment in the infrastructure, it is not reasonable to expect the national government to pump massive amounts of money into our public works projects during a period of record budget deficits. By the same token, the Federal Government cannot simply ignore the problem, as very few state and local governments are in a position to meet their investment needs independently. Instead, Washington must seek creative new ways to utilize the limited resources that are available to obtain the greatest long-term investment out of each dollar spent. We therefore applaud the authors of the legislation before the Committee today and the Congressional Budget Office for offering alternatives to our traditional approaches to public works financing.

Before discussing the proposals individually, I would like to make a few general comments regarding NSPE's positions on public works financing.

First, NSPE strongly opposes the creation of major new categorical grant programs, or rapid expansion of existing grant programs. We believe that there are other approaches that the national government can take which will maximize Federal resources and improve the ability of state and local governments and the private sector to meet our national investment needs.

This may seem like a strange position coming from an organization whose membership stands to benefit from such grant programs. After all, when Federal grants result in the construction of new facilities, this means more jobs for engineers. However, after years of dealing with the paperwork and other procedural requirements involved in these programs, our members have come to the conclusion that the grant money often is not worth the delays, increased project costs, and other headaches caused by the requirements accompanying Federal funds. If the Committee so desires, we will be happy to provide in writing examples of these delays and their implications.

Futhermore, in many instances, other mechanisms can be utilized without placing major financial burdens on the communities involved. The Committee has already reviewed two major and excellent studies today, but we would like to offer our own, more limited analysis to make this point. NSPE's Professional Engineers in Private Practice (PEPP) Division have been studying the Environmental Protection Agency's Sewage Treatment Construction Grants program for several years. As I stated earlier, our members have been disenchanted by the grants approach in general, and by this program in particular. However, we were concerned over the impacts that the loss of the Sewage Treatment Construction Grants program might have on the rates paid by citizens of our communities which need to upgrade their treatment facilities.

Therefore, our consulting engineers recently conducted an analysis of financing packages using different combinations of grants and low-interest loans for a hypothetical community of under 10,000, and estimated the impacts of various options on rates. We assumed that the loans would be paid back with a five-percent interest rate over 40 years.

According to our study, a copy of which is attached to our testimony, for secondary treatment the lowest rates per household are achieved by the use of a grant covering 55 percent of project cost with a loan funding the remainder of the project. A grant covering 75 percent of costs with no loan component produced slightly higher rates. A loan covering all project costs raised rates by approximately $55 per year over the lowest option.

Perhaps most significantly, a low-interest loan covering 100 percent of project costs raised the average household rate by only about $53 per year (or less than $4.50 per month) when compared to a grant covering 75 percent of costs.

Mr. Chairman, we realize that this is a limited study covering one aspect of one program. However, it suggests that in some instances loans can be substituted for grants without having significant negative impacts on local ratepayers. Furthermore, our study directly supports section 206 of S. 532, which amends the Clean Water Act to allow states to redirect their allotments of wastewater treatment grant funding into state banks providing financing for the construction of publicly owned treatment works.

Our second point concerns the burden assumed by the Federal Government, a subject explored in great detail by the Congressional Budget Office. We believe the national government needs to implement new policies on cost sharing with project beneficiaries and on user fees. Earlier this year, we submitted testimony to this Committee endorsing the formulation of government-wide cost-sharing policies for water projects. We also believe that in most instances it is reasonable to expect the users of public works facilities to share the costs. As the Congressional Budget Office noted, user fees "can result not only in services that are self-financing, but also in a more accurate measure of needs." It is only natural that our "need" for an item will rise to the extent that someone else is paying the bill. While we realize that Federal involvement must remain high in some areas, we do think it is time for a reevaluation of the national government's role in funding many types of public works projects.

Our third point addresses the tools we need to make such an evaluation. The National Society of Professional Engineers endorses the adoption of capital budgeting procedures by the Federal Government. The ability of the Congress to set priorities for our national public works investments would be greatly enhanced if the President's unified budget included a separate analysis of our current investments, our needs, and proposals for meeting those needs. This would give Congress a greater opportunity to formulate policy on the infrastructure and choose among competing demands.

Proposals for the institution of capital budgeting on the Federal level have been criticized for being overly complex, for violating the principle of a unified Federal budget, and for hiding the Federal deficit. Mr. Chairman, we can have a Federal capital budget without being subject to any of these criticisms.

Most states and a great many local jurisdictions use capital budgeting. These procedure vary widely in complexity. Some capital budgets are separate documents, others are part of the chief executive's overall budget proposal to the legislature. The best ones have certain features in common. First, they segregate capital expenditures from operating costs. Second, they include an analysis of how the public works investments will be financed. Third, they project capital expenses several years into the future, and some even estimate how today's capital expenditures will impact on tomorrow's operating expenditures. Finally, they are connected to a long-range "facilities plan" which describes, often in very general terms, the jurisdiction's plans for infrastructure development. We believe that such a process can be included as part of the President's unified budget, without the creation of a huge new bureaucracy and without hiding the deficit in any way.

We also recognize the capital budget for what it is -- an informational tool. It will not, by itself, solve our infrastructure problems. A good capital budget will provide Congress with clear and concise information regarding our public works investments, but this does not mean that the political dilemmas facing Congress will be any easier. However, we believe that the debate over infrastructure financing is a debate over setting new priorities and taking new approaches to this problem, and we believe that capital budgeting procedures will be very valuable to Congress in that regard.

I also would note that the professional community which deals most directly with our public works programs recognizes the need for a new approach. One indication of this was the National Water Symposium, which was held in Washington, D.C. last November and cosponsored by NSPE and several other engineering and public interest groups. This event brought together 150 professionals from state and local government, business, and industry, to explore solutions to our water infrastructure problems. The participants began with the assumption that Federal support for such projects would diminish in the years ahead, and focused on the steps which would have to be taken if state and local governments, and the private sector, are going to meet future needs. The creation of a "national water bank" to provide low-interest loans for water projects was one proposal raised for consideration. The participants also recommended the institution of capital budgeting procedures on all levels of government, a greater reliance on user fees, and a reduction in the procedural requirements accompanying most current Federal program. I have attached the executive summary of the Symposium proceedings to my statement for the Committee's review.

Mr. Chairman, I will now address the individual proposals pending before the Committee.

## Rebuilding of America Act of 1983, S. 23

For reasons I stated earlier, NSPE supports the basic goals of S. 23, and commends Senator Moynihan for drafting this proposal. The bill calls for an inventory of capital investments in the United States, a "National Public

Improvements Plan," the institution of capital budgeting practices into the Federal budget process, and the creation of a National Commission on the Rebuilding of America.

Our only concern is that the bill may be too ambitious, in terms of the detail which the legislation requires of various budget reports to the Congress and the timetables for completing those reports. While the information called for under S. 23 certainly would be useful, we believe that the Congress could obtain the basic data it needs with a less detailed capital budgeting process. Nevertheless, the basic premise of the bill is sound. We should have some form of capital budget on the Federal level.

### Public Investment Incentive Act of 1983, S. 532

Mr. Chairman, NSPE strongly endorses S. 532, which would provide Federal seed money to help the states set up infrastructure banks to provide low-interest or no-interest loans for public works investments. This proposal merits support for several reasons.

First, it recognizes the diversity of infrastructure needs. It provides the states with a great deal of discretion in determining their own priorities. This is the kind of needed flexibility which I alluded to earlier in my statement.

Second, it maximizes the benefits of Federal expenditures. Obviously, money awarded as a grant can only be utilized once. However, S. 532 sets up revolving loan funds. Once a loan is paid back, that money can be used again for additional projects. I would think such a program would meet the League of Cities and Conference of Mayors' criteria for a "steady but manageable investment over a period of years."

Third, it will help the states and localities adopt reasonable priorities. Because the loans must be repaid, state and local officials will only use them for high-priority projects. Such loans will provide an alternative source of financing for communities to meet their already-established needs. Unlike grants, the loans should not create "needs".

There has been some debate over the wisdom of individual state banks versus one national bank, and there are valid arguments on both sides. State banks provide greater local control, while a national bank could take advantage of certain economies of scale. The National Society of Professional Engineers does not favor one approach over the other at this point in time, but urges the Committee to give careful consideration to both proposals.

## Public Capital Investment Act of 1983, S. 1330

Mr. Chairman, the National Society of Professional Engineers endorses many aspects of S. 1330. Like S. 532, it would set up revolving funds with the states to meet public works investment needs. The points I raised regarding the merits of S. 532 would apply to S. 1330 as well. I also would submit a few additional comments.

The importance placed on the maintenance and repair of projects financed under S. 1330 is a welcome departure from current Federal programs. The CBO, in its most recent and in earlier reports, has discussed the emphasis that traditional Federal public works programs have placed on construction rather than maintenance. We have seen numerous instances where facilities built by Federal dollars have not been properly maintained. It is often difficult for state and local officials to resist the lure of Federal grants, even though their budgets will be hard pressed to meet future operation and maintenance requirements. Clearly, Congress has a responsibility to ensure that when the taxpayer's money goes toward the construction of public facilities, those investments will be properly maintained.

By the same token, the provision of S. 1330 which requires the states to demonstrate that they are providing adequate training to their personnel who will be operating these facilities is another important step toward protecting the Federal investment in these facilities.

## Conclusion

In closing Mr. Chairman, I would like to express our appreciation for being allowed to participate in today's session. Engineers play pivitol roles in the development of our public works infrastructure, and we are anxious to help find solutions to the capital investment problems facing our national, state, and local governments. We are encouraged by the approach the Committee is taking to this issue, and we look forward to supporting you in your efforts to improve our methods for planning, financing, and managing the facilities upon which our communities and our nation depend. In providing for construction funds and maintenance procedures, Congress must insure that implementing regulations do not strangle the program. Accountability at the local level is needed, but end result goals should be stressed rather than the details of implementation.

February 2, 1983

## Draft Report of the Committee on Construction Grants and Loans - NSPE/PEPP "COST OF CLEAN WATER - IMPACT ON SMALL COMMUNITIES"

A substantial backlog of necessary water pollution control projects in small communities and scheduled reductions in the Construction Grants program make it likely that many small communities will have to construct their improvements with reduced or no grant support. This may place the cost of wastewater treatment outside the reach of many small communities.

The use of less costly methods of wastewater treatment such as lagoons or trickling filters, which may be permitted where they do not cause water quality degradation, does reduce user costs. This substitution, however, will not offset reductions or the elimination of grant support. Low interest loans, such as the 5%, 40 year loan available through the Farmers Home Administration, in combination with a 55% grant, can yield user charges comparable to those under the current 75% grant program. However, we view the recent reductions in federal aid as a trend toward zero grant support. This paper evaluates the impact of that trend on small communities of 25,000 or less.

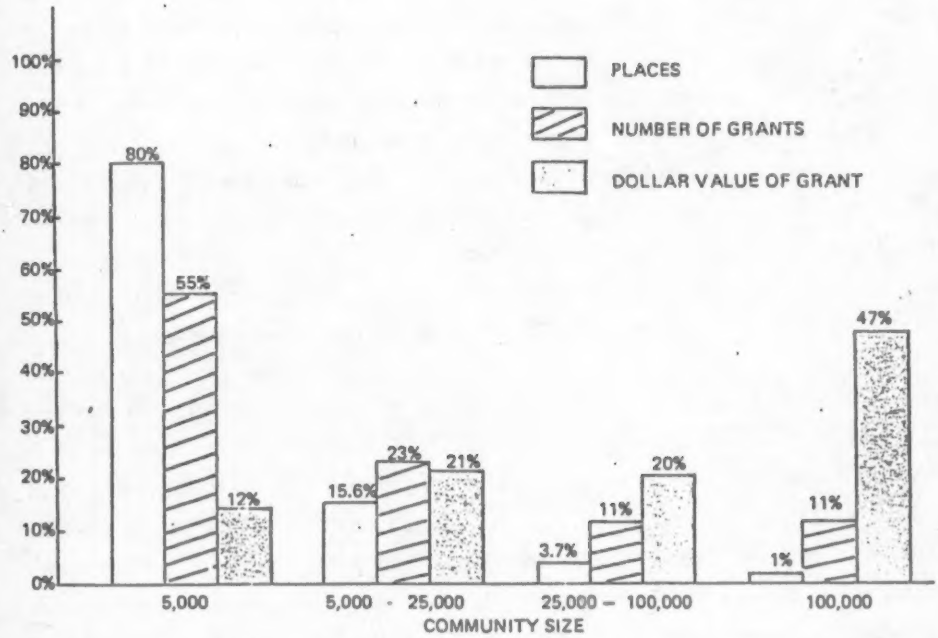
### Background

From 1972 to 1980, the heyday of the construction grants program, the federal government obligated over $29 billion for the construction of water pollution control facilities. Wastewater treatment plants of less than 1.05 mgd constitute 79% of the number of treatment plants in the U.S. but account for only 8.4% of the total treatment capacity. Treatment plants over 50 mgd comprise only 0.6% of the number of treatment facilities while accounting for 38.8% of the total U.S. wastewater treatment capacity (Feliciano, 1982). In order to achieve the maximum benefit for pollution control dollars spent, grant monies were intentionally directed by Congress and EPA toward the larger dischargers. As shown in Figure 1, only 31% of the grant money went to communities with populations under 25,000 and only 12% went to communities of under 5,000, despite the fact that such communities represent 95.6% and 80% respectively of the total number of communities, and contain half of the country's population.

Many factors have contributed to the substantial backlog of wastewater treatment facility needs in small communities. Grants were awarded based on state

FIGURE 1

DISTRIBUTION OF PLACES, NUMBER OF GRANTS AND GRANT DOLLARS BY COMMUNITY SIZE



Source: EPA 1990 Preliminary Draft Strategy
for Municipal Wastewater Treatment
January 1981

priority lists which tend to favor larger communities due to population points, volume of discharge and other factors. In addition, the EPA regulations in effect during the 1970's tended to favor regional treatment plants as opposed to smaller local treatment facilities. EPA required extensive documentation to justify the need for sewers in order to obtain grant support, and otherwise made facilities planning in small commmunities difficult. In many cases, small communities could easily obtain a Step 1 grant for preparing a planning report only to be too low on the priority list to implement the plan. The very existence of the grant program tended to discourage and delay the construction of wastewater treatment facilties in many small communities since it is difficult to justify the expenditure of 100% local funds when the possibility exists for receiving a 75% grant. In addition, many small communities had existing facilities, such as trickling filters, which could not consistently meet the treatment levels required by PL 92-500. In some cases those facilities were anticipated to be abandoned and therefore not maintained as well as they would have been otherwise.

The Municipal Wastewater Treatment Grant Amendments of 1981 authorized $2.4 billion for construction grants in fiscal 1982 and the same amount for each year after until 1985. Grants awarded prior to October 1, 1984 will qualify for a federal grant of 75% of the eligible costs while new projects after October 1, 1984 will only receive a 55% grant. In addition, the categories of eligible projects will be reduced after October 1, 1984 and new sewer construction will be ineligible. Thus, it appears that the Construction Grants Program is going to be phased out, placing the burden of providing wastewater treatment back on the local community and, ultimately, the individual users.

The costs of providing wastewater service have increased substantially over the years as higher levels of treatment have been required. Smaller communities are particularly subject to high treatment costs for a number of reasons. Frequently located on smaller streams which are classified by states for higher water quality levels, they may be required to construct more expensive advanced treatment systems. In addition, small communities generally have lower per capita revenues, lower bond ratings and are required to pay higher bond interest. Many small communities lack centralized sewer systems entirely and thus are faced with the added cost of building sewers.

In addition to reducing the federal share of grants, the Municipal Wastewater Treatment Grant Amendments of 1981 revised the definition of "Secondary Treatment" to include oxidation ponds, lagoons and trickling filters when water quality will not be adversely affected. These processes which do not consistently provide the same level of pollutant removal as the PL 92-500 definition of secondary treatment facilities are less costly to construct and operate.

## Method

The impact of the reduction and elimination of the grant program on costs per household in small communities is evaluated for communities with treatment plant design flows of .01 mgd to 4 mgd, utilizing conventional secondary processes, trickling filters or waste stabilization ponds. The cost of sewer construction is not included in this evaluation. It is also assumed that existing wastewater treatment facilities cannot be utilized and that a new treatment facility must be built.

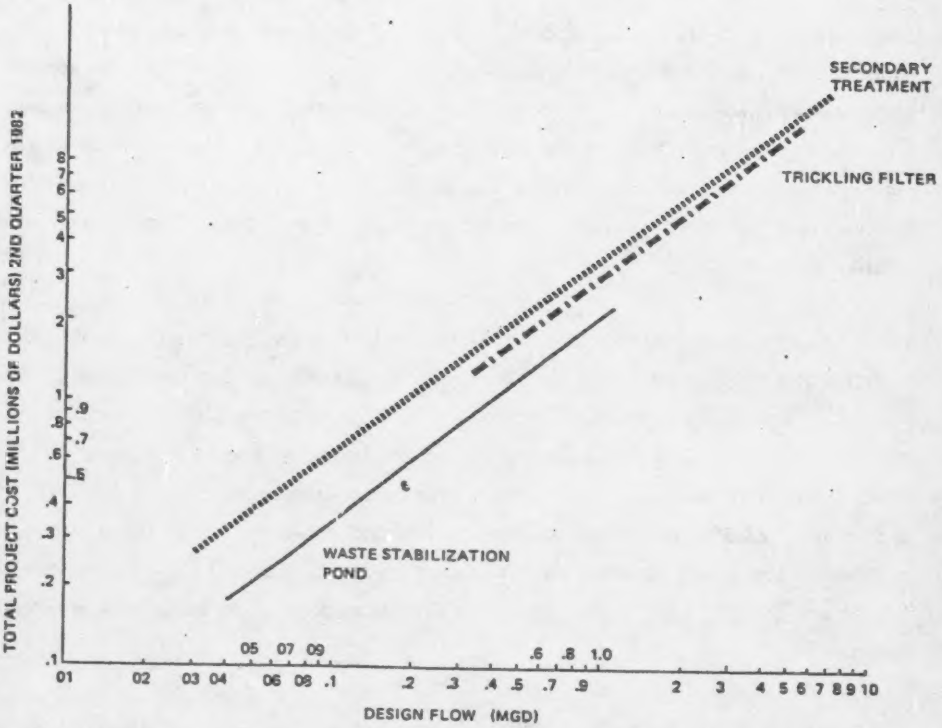
Total project cost curves for constructing wastewater treatment plants with design flows ranging from .05 mgd to 4 mgd are estimated for treatment plants providing secondary treatment, plants utilizing trickling filters, and waste stabilization ponds (Figure 2). Building costs are based on the EPA manual "RFD-22 Construction Costs for Municipal Wastewater Treatment Plants: 1973-1978" and include 27.9% for planning, engineering and contingencies. The costs are updated to the second quarter of 1982 based on the EPA Small City Conventional Treatment (SCCT) index. The waste stabilization pond cost includes a nominal land cost.

The range of design flows for trickling filters and waste stabilization ponds were limited by the availability of construction cost data as well as practical considerations. As shown in Figure 2, the cost for constructing a waste stabilization pond or trickling filter is less than that for contructing a secondary treatment facility. Since the secondary treatment curves were developed by EPA using construction costs for existing secondary plants, including some trickling filter facilities, the secondary treatment curve is probably lower than it would be if trickling filters had been excluded.

Local costs for debt retirement for each type of treatment facility are calculated three ways: no federal grant assistance, a 55% federal grant and a

FIGURE 2

TOTAL PROJECT COST VS. DESIGN FLOW



75% federal grant. The annual cost for debt retirement of the local share is based on municipal bond sales of 25 years at 10%.

User cost for debt retirement in each case is then calculated assuming that the treatment plant is being operated at 75% capacity with average household flow based on 3 persons per household and 120 gallons per capita. Table 1 indicates the service population and number of households corresponding to selected design flows.

TABLE 1
Population and Households
Served at 75% Design Capacity

| Design Flow (mgd) | Population at 75% Capacity | Number Households |
|---|---|---|
| 0.05 | 313 | 104 |
| 0.1 | 625 | 208 |
| 0.5 | 3125 | 1042 |
| 1.0 | 6250 | 2083 |
| 2.5 | 15625 | 5208 |
| 4 | 25000 | 8333 |

Operation and maintenance (O&M) costs, including administration costs, are estimated for secondary treatment and trickling filter plants with design flows of 0.05 mgd to 4 mgd based on the EPA Manual "RFD-22 Operation and Maintenance Costs for Municipal Wastewater Facilities". The costs are updated to the second quarter of 1982 based on the EPA OMR (Operation, Maintenance and Repair) index. An operation and maintenance cost curve for waste stabilization ponds was estimated based upon existing facilities in Michigan since comparable information was not contained in the EPA report. Table 2 contains the estimated annual operation and maintenance cost for selected design flows for each facility. As would be expected, trickling filters and waste stabilization ponds generally have lower O&M costs than secondary treatment facilities. The O&M for a 1 mgd waste stabilization pond, however, is estimated to be higher than that for the comparable secondary or trickling filter facility. This may be due to the limited amount of data used to develop the curve.

Table 2
Estimated Annual Operation and Maintenance Cost for Secondary, Trickling Filter and Waste Stabilization Pond Facilities

| Design Flow (mgd) | Secondary[1] | Trickling Filter[2] | Waste Stabilization Pond[3] |
|---|---|---|---|
| 0.5 | $ 11,900 | — | $ 7,000 |
| 0.1 | 21,582 | — | 13,800 |
| 0.5 | 71,940 | $ 65,945 | 64,000 |
| 1.0 | 119,900 | 101,915 | 125,000 |
| 2.5 | 238,700 | 214,830 | — |
| 4.0 | 327,305 | 297,550 | — |

1. FRD-22
2. FRD-22
3. Actual facilities in Michigan

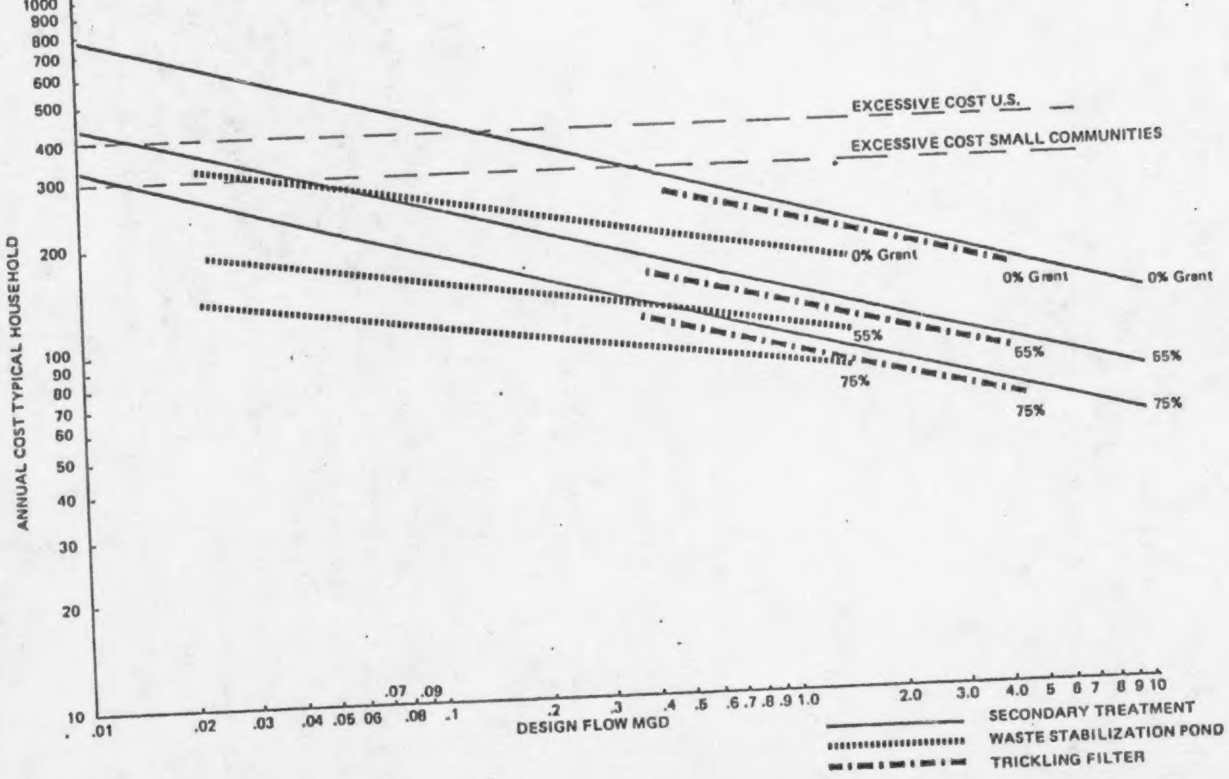
User costs for operation and maintenance for each case are then calculated based upon the same assumptions stated previously.

The total estimated annual cost for a typical residential customer, three person household, is derived by combining the user cost for debt retirement and the user cost for operation and maintenance. Figure 3 illustrates the estimated annual cost for a typical residential customer for secondary treatment, trickling filter and waste stabilization ponds for each of the three grant scenarios.

According to the 1980 Census, the median family income in the United States was $19,908 in 1979. According to the EPA Criteria (CG-82), annual user charges should not exceed 1.75% of the median household income when the median income exceeds $17,000, 1.5% when the median income is between $10,000 and $17,000 and 1% when the median income is under $10,000. Adjusting the 1979 U.S. median family income to household income, applying the appropriate percentage (1.75) and updating costs to 1982 via the consumers price index (CPI) yields an excessive user cost limit of $400. Any user cost having annual user charges exceeding $400 is considered to place an excessive financial burden on users of the system.

FIGURE 3

HOUSEHOLD COSTS AS A FUNCTION OF DESIGN FLOW FOR SECONDARY WASTEWATER TREATMENT, TRICKLING FILTER AND WASTE STABILIZATION PONDS UNDER 0%, 55% and 75% GRANT SUPPORT



In most small communities, the median family income is substantially lower than that found in larger metropolitan areas. A study performed by the U.S. Bureau of Census indicates that the median family income for an outmetropolitan nonfarm family of four was $17,646 compared to $20,502 for the total United States (U.S. Bureau of Census). Based upon the EPA criteria, any annual user cost in such areas exceeding $304 is considered to be excessive.

The excessive user cost limits for both the U.S. as a whole and the outmetropolitan nonfarm family of four are overlaid with the annual household cost curves developed under the three grant cases. Without grant support, the cost for secondary wastewater treatment would be excessive in small communities with a design flow of 0.35 mgd, population 2188. With a 55% grant, the size of the community that would experience the cost as being excessive would be reduced to .04 mgd or 250 persons, and with a 75% grant, essentially all communities required to construct and operate treatment plants would be able to do so without experiencing excessive costs.

The household cost curves shown in Figure 3 are based on the following assumptions: 1) The community is currently sewered and the sewers do not require rehabilitation, 2) The project involved complete replacement of any existing treatment facility and, 3) The entire project is grant eligible. The cost of new sewer construction, much of which is ineligible, would raise the curves, while the cost savings from being able to utilize existing treatment facilities would lower the curves. Ineligible project costs would raise the 75% and 55% grant curves and bring them closer to the no grant curve. Smaller communities, under 1,500, approximately 0.25 mgd, in many cases lack sewers and treatment facilities entirely, while communities larger than 1500 generally are sewered and may have existing facilities which could be reused. Therefore, the right side of the curves may be higher than would be expected for typical communities of that size while the left side may be low.

The impact of grant reductions on the annual household cost in a community with a population of 6250 is shown in Table 3. The cost savings resulting from the use of trickling filters or stabilization ponds in lieu of secondary treatment does not offset the impact of grant reduction on annual household costs in small communities.

Table 3
Impact of Grant Reduction on
Annual Household Cost in Small Community
Design Flow 1 mgd (Population 6250)

| | Secondary | Trickling Filter | Waste Stabilization Pond |
|---|---|---|---|
| 0% Grant | $247.04 | $227.32 | $173.00 |
| 55% Grant | 143.23 | 128.77 | 111.25 |
| 75% Grant | 105.12 | 93.30 | 88.91 |
| 55% Grant + FmHA Loan* | 103.00 | 91.13 | 87.05 |
| 100% FmHA Loan* | 158.22 | 143.09 | 120.10 |

* 5% FmHA Loan over 40 years.

The U.S. Department of Agriculture, Farmer's Home Administration, (FmHA) provides grant and loans to communities of 10,000 or less for the construction of wastewater treatment facilities. In order to qualify, the community must be unable to finance the project from its own resources or through commercial credit at reasonable rates. Communities with a median family income of less than $9,300, the poverty line, may qualify for a 5% loan amortized over 40 years. If the median family income is over $14,450, FmHA offers a 40-year loan based on a fixed interest rate (market rate) that is determined by the average bond buyer's index at the time the loan is made, currently 10.625%. If the median income falls between $9,300 and $14,450, the interest rate would be 5% plus half of the difference between 5% and the current market rate, currently about 7.8%. Grants are made only when necessary to reduce the average annual benefited user charges to a reasonable level. Competition for FmHA grants and loans is very heavy since the amount of funds is limited and FmHA qualifying projects also include rural water supply facilities. FmHA budgets average only about 17% of the EPA grants budget,

As shown in Table 3, the annual household costs for projects receiving a 55% grant and a low interest rate FmHA Loan, 5% over 40 years, are approximately the same as a 75% grant. For projects with substantial ineligible costs, the 55% grant plus loan combination would be even more favorable. With 100% FmHA funding at 5% for 40 years, the user charges would be higher than for the 75% or 55% grant cases. However, the use of trickling filters or waste stabilization ponds in combination with the low interest rate loan would approximate a 55% grant situation with conventional secondary treatment. Again, for projects with substantial costs ineligible for grants, such as sewers after October 1 1984, the low interest rate loan could result in user costs more comparable to or lower than the project would have required if it had received a 75% grant.

## Conclusions

The impact of grant reductions and changes in the classification of eligible project costs resulting from the Municipal Wastewater Treatment Grant Amendments of 1981 will significantly affect small communities. Due to the state priority systems and other factors, small communities have received a disproportionately small share of EPA grants in terms of numbers and dollars. There is a substantial backlog of needed projects in small communities which will now have to be funded with reduced or no grant support. Since annual household costs for wastewater treatment in smaller communities are higher than in larger ones, and the median household income is generally smaller, the percentage of families that would be burdened by excessive costs of wastewater treatment would be larger. This paper has evaluated the impact of grant reductions on small communities with existing wastewater collection systems. The impact on communities without existing infrastructure would be much more severe.

The use of waste stabilization ponds, trickling filters or other lower cost treatment facilities will reduce household costs and should be pursued if the community is located in an area where water quality would not be adversely affected. However, many smaller communities are located on water quality limited streams and will therefore be unable to take advantage of these treatment processes. In any case, the use of lower cost treatment does not offset reduced grant support.

Low interest rate loans, such as those available from the Farmer's Home Administration, will help offset the reduction in grant support and the elimination of eligible project categories facing small communities. However, that program has very limited funds and is therefore very selective. Many small communities with needed projects and high user costs are unable to take advantage of the Farmer's Home Administration program because their median family incomes are too high. Consideration should be given to making a low interest loan program available to smaller communities on a wider scale to help them deal with their water pollution problems. This program could be patterned after the Farmer's Home Loan program but should shift emphasis from family income to the cost for user service and water quality need. However, such a loan program would probably not have sufficient funds to address the tremendous backlog of small community needs.

Some of the states may be able to provide grants, loans or other programs to help local communities finance the cost of clean water. However, we suspect that the majority of the states are suffering budget contraints themselves. Financial consultants and others are investigating such innovative financing alternatives as state banks or selling equity shares in the treatment plant, and these should all be explored.

There is no easy answer to the question of how to finance the backlog of wastewater treatment improvements in small communities. Perhaps the solution must be different for each community. Small communities with existing public utilities should take actions now to finance the operation of their wastewater treatment facilities on a self-sustaining basis rather than anticipate a federal program bailout. User charge systems and rate structures should provide sufficient revenue for operation, maintenance, replacement and capital improvements.

References:

1. EPA 1990 Preliminary Draft Strategy for Municipal Wastewater Treatment January 1981.

2. FRD-11 Construction Costs for Municipal Wastewater Treatment Plants: 1973-1978.

3. FRD-22 Operation and Maintenance Costs for Municipal Wastewater Facilities.

4. CG82 Construction Grants 1982 July, 1982.

5. U.S. Bureau of Census, Population Report Consumer Income Series P-60 No. 129 "Money Income of Families and Persons in the United States 1979".

6. Feliciano, D.V., "Fact Sheet for Wastewater Treatment" Journal WPCF, Volume 54, Number 10, October 1982, p. 1346-1348.

TESTIMONY OF

SHELBY K. WILLIS

PARTNER, BUCHER, WILLIS & RATLIFF,

CONSULTING ENGINEERS, PLANNERS & ARCHITECTS

SALINA, KANSAS

PRESIDENT-ELECT

AMERICAN CONSULTING ENGINEERS COUNCIL

REGARDING

INFRASTRUCTURE REVITALIZATION GOALS

BEFORE THE

COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS

OF THE

U.S. SENATE

Washington, D.C.

July 15, 1983

## Testimony Of Shelby K. Willis

Mr. Chairman and Members of the Committee, my name is Shelby Willis and I am a partner in the firm of Bucher, Willis & Ratliff, Consulting Engineers, Planners and Architects, with headquarters in Salina, Kansas, and branch offices in Missouri, Kansas and Texas. As the name suggests, Bucher, Willis & Ratliff is a multi-disciplined design firm with experience in virtually every phase of facilities construction ranging from feasibility studies, facility planning, design, construction management and inspection of a wide range of public facilities, including viaducts, bridges, sewage treatment plants, airports and schools.

As President of the American Consulting Engineers Council (ACEC), I appreciate the opportunity afforded by this Committee to discuss logical methods for developing a national infrastructure program in which to systematically and logically assess these needs.

ACEC is a national federation of more than 3,800 privately-owned engineering firms involved in every component of our infrastructure, from designing airports to planning sewage treatment plants, mass transit systems and correctional facilities.

As a profession, consulting engineering spans the study, design and inspection phases of almost all construction projects. The engineer considers not only the impact of "first costs", but also the vitally important operation and maintenance costs associated with the life cycle of the facility.

General Comments

ACEC appreciates this Committee's recognition of the need to develop a coherent, consistent public works policy. ACEC has developed a number of key points which we believe can serve as a useful framework for this Committee in developing a sound national public works policy.

1. Priority for program and project funding emphasis should be on the following basis: (a) repair/rehabilitation or replacement of existing capital facilities; (b) accelerated completion of previously authorized facilities; (c) "new starts" with substantial local cost-sharing and recovery; and (d) "new starts" to meet critical national needs.

As the Congressional Budget Office study aptly points out, the United States' public works infrastructure is now largely in place, providing the physical framework for continued expansion, population shifts, and economic growth. Consequently, the pattern of public works development spanning more than 100 years which focused on "new construction" must be altered to reflect current rehabilitation needs. Agency attention should be directed to existing backlogs of projects and analyses similar to the "Reconnaissance Study" approach developed by the Army Corps of Engineers can be used to establish an "acid test" of individual project costs and benefits . Similarly, "new starts" should be evaluated on the basis of contribution to overall national development objective and benefits to a particular state or locality, with "national needs" projects receiving a greater share of federal assistance.

The "acid test" could be applied to the nation's port development. Dredging is routinely required to maintain present depths of the majority of the nation's ports. National policy objectives to enhance export shipping or defense naval capabilities may require major dredging to deepen certain ports, and greater federal share of dredging costs.

2. Funding to local and state governments should be generally limited to "brick and mortar" functions with those entities taking responsibility for funding administration, operations and maintenance.

Limiting funding in this manner could release federal funds for public capital commitments that are clearly more national in scope while, at the same time, encouraging, localities to build their public works management expertise.

3. Increased, but reasonable and flexible, levels of local cost-sharing, with substantial cost recovery through user fees, as opposed to outright "no strings" federal funding commitments.

The current federal presence at the "head of the line" in the borrowing markets has limited state and local governments' abilities to meet pressing public facilities financing needs, thereby weakening these governments' decision-making authority. It has also served to sap the decision-making potential of state and local governments to develop innovative methods to finance public capital investment and ongoing maintenance.

4. Prioritization of projects should be based on strict cost-benefit analysis of "primary" construction benefits. Further regulatory reform efforts should reduce project cost of "incidental" benefits associated with social policy regulations.

It is essential that Congress acknowledge and correct the historic over emphasis on public capital facility development as a vehicle for promoting social policy. The net result of giving social policy goals priority over "hard" development goals is that capital development is held captive to federal regulations, and several years are added to the construction timetable for a public capital facility.

Included as an appendix to this statement is a timetable compiled by an ACEC member firm which chronicles unwarranted costs and construction delays experienced by the firm as a result of National Environmental Policy Act requirements. This project involved replacing an unsafe bridge at the same location for the same purpose. This example illustrates how mandated federal reviews can extend the design phase far beyond reasonable limits, with serious implications for both construction cost and public safety.

ACEC urges the Committee to examine Sections 301(b) and 301(f) in S. 1330, Section 207(a) in S. 532 and Section 107(d) in S. 23 in terms of social policy cost/benefits to public facility development goals.

5. Further streamlining of grant administrative, audit and other regulations impacting capital development.

The recently released Executive Order 12372 replacing OMB Circular A-95 grants state and local governments the authority to establish a process of intergovernmental review on grants and other assistance programs. ACEC anticipates that this more appropriate governmental review level will serve to reduce paperwork burdens and avoid costly review delays.

A single audit conducted annually or biennally by independent auditors in accordance with GAO standards would eliminate current overlaps and duplication encountered by all federal grant assistance recipients.

6. Use of federal tax incentives and bond financing for only essential public facilities, with strong encouragement for complete "privatization" wherever possible.

ACEC recommends that the Congress review tax incentives for public- and private-purpose bonding established through the 1981 tax law changes contained in the Economic Recovery Tax Act of 1981 (ERTA) not to curtail their use but to ensure that the use of federal tax incentives and tax inspired "creative financing" is available for only essential public facilities.

7. Maximum utilization of private designers, contractors, materials suppliers and facilities operators.

The President's Private Sector Survey on Cost Control's Task Force Report on Federal Construction Management noted that the federal government can reduce the cost of construction by $43.2 billion annually through increased contracting out of design and construction services.

8. All federal public works program and project commitments should be segregated in a capital investment budget within the unified federal budget.

Development of essential capital facilities has become an end unto itself, a process in which the value of the facilities is often measured solely in terms of the number of construction jobs created and not in their over-all importance to local, state, regional or national economic growth. The use of public works programs as political expedients over the past several years has led to significant declines in public support for public capital facilities.

There simply has to be a better way to allocate scarce resources to critically-needed public capital development.

## Specific Comments

### Rebuilding of America Act of 1983 (S. 23)

ACEC believes that the Committee should seriously explore the benefits to be derived from the implementation of a federal capital investment budget as the proper framework for the planning, assessment, priority ranking and financing decisions needed to conduct the public works process in an organized, responsible manner.

ACEC was pleased to support H.R. 1244 during recent consideration by the Public Works & Transportation Committee. We believe that the development of capital investment budget information is a far more effective managerial tool than Special Analysis D, although we commend OMB for including this profile of federal capital commitments in the President's FY 84 budget submission.

There is no "magic" to the steps in this process. It should begin with the cost-effective method for cataloguing federal public facilities and their physical conditions. Most federal agencies currently undertake such inventories. The Department of Transportation's (DOT) highway bridge replacement and rehabilitation and the Environmental Protection Agency's biennial needs study are good examples of this data collection and assessment process. Other examples are DOT's Highway Cost Allocation Study and the National Dam Safety Inspection Study.

The next step in the capital budget process is the development of a uniform assessment system to be utilized by all federal agencies that would serve to standardize criteria for projecting current and future facilities costs and enable the federal government to bring together in one place an inventory of its total capital investment.

There should be no need to "re-invent the wheel" here. Much of this data has already been developed and there is a common "language" of public health, safety and design and construction standards promulgated by a wide range of professional and technical groups through which these assessments can be expressed. Section 109 in S. 23 and Title III of S. 1330 provide concise definitions of numerous construction-related terms. In short, while the "state of the art" will continue to improve, the technology to develop accurate needs assessments is now available.

The joint survey conducted by the National League of Cities and the United States Conference of Mayors notes that 74.8 percent of the 809 total city respondents utilize a capital investment budget. These budgets, by separating capital outlays from ongoing maintenance and operating costs, provide sufficient information with which to undertake needs assessment and project priority ranking. Furthermore, the survey notes that of the 186 respondents saying that they did not have a capital budgeting process, 83.5 percent states that they do have some other substitute process for planning capital expenditures. Similarly, at least 34 states currently utilize a capital budget.

Public works development in support of economic vitality varies with each state and local community, depending upon where in the infrastructure cycle the city, county or state is. Needs could vary considerably from new construction to support growth, to rehabilitation and reconstruction to alleviate decline, to maintenance to sustain a stable infrastructure.

Besides exerting financial influence, federal programs and policies can and often do significantly influence state and local governments' capital investment decisions. While this federal influence can have a positive effect in terms of promoting overall economic growth, some states and communities may have public facilities requirements equal to but separate from projects for which federal assistance is more readily available. Because of this wide diversity in public facility needs, state and local governments must be afforded the flexibility to assess needs and develop solutions of optimum benefit for that individual state's or locality's economic growth.

ACEC believes that Section 105(b) of the bill acknowledging that "... special revisions in federal laws, regulations, and policies ... and current responsibilities of federal, state, and local governments may be necessary to reverse the pattern of declining investment in national public improvement"may be the most important element of the bill.

Federal regulatory burdens placed on administering public works programs can and must be reduced for significant cost savings. These regulatory costs should be clearly highlighted in agency data incorporated into the capital budget.

Cost analyses of the effects of federal regulations required at various project development and construction stages could greatly assist the government in identifying areas of over regulation that contribute to increased project costs through delays and wasted time without significantly contributing to the quality of the project. We would also point out that many studies of regulatory impact on construction programs and the design and construction industry, including those completed by the National Institute of Building Sciences and the Business Roundtable are "on the shelf" and worthy of the Committee's review.

Public Investment Incentive Act of 1984 (S. 532)

Although the bill emphasizes that private investment capital should play the predominant role in meeting public capital needs, we believe that the Title III provisions serve to increase the federal presence in the public capital marketplace. Encouraging the federal government to refinance debt obligations of municipalities at or below market levels and provide state and municipalities with "new starts" capital funding at reduced interest costs not only limits state and local participation in financial markets but also creates an insipid reliance by states on federal assistance.

In the event that state "funds" or "banks" are deemed to be an appropriate funding mechanism. These funds should be strictly limited to "brick and mortar" functions. Cost recovery through user fees and reasonable but flexible levels of local cost sharing should be employed to maintain such funds.

## Public Capital Investment Act of 1983 (S. 1330)

In our experience, agency program management of public capital facilities programs is sound. However, these programs are heavily encumbered by excessive regulatory burdens and are subject to the "stops and starts" in the authorization/appropriations cycle that causes uncertainty for state and local governments.

The project timetable in the Appendix clearly demonstrates the substantial construction delays caused by unnecessary federal involvement in project review processes. The recent Executive Order 12372 permitting state and local governments to establish intergovernmental review processes for grants and assistance programs is a major step in streamlining of the grant review process.

ACEC believes that reestablishing federal authority to participate in this process, would be counter to this current policy.

## Conclusion

ACEC believes that the Committee, as evidenced in its perspective of policy goals, has the ability to redefine the federal role in public works policy to encourage state and local initiatives, foster their financial capabilities and enhance productivity of all those involved in the public works improvement process, including the design professionals and constructors who ultimately determine the cost and long-term worth of public capital stock.

Consulting engineers can draw upon personal experiences in their efforts to design public works projects within the direct federal and federal assistance programs. We will be happy to provide this Commitee with any additional information that will be helpful in developing the proper framework within which to develop a coherent public works development program. Again, I want to thank you, Mr. Chairman, for the opportunity to present the views of ACEC. I will be happy to answer any questions you may have.

## Appendix

BAKKE KOPP BALLOU & McFARLIN, INC.
CONSULTING ENGINEERS
7505 West Highway Seven, Minneapolis, MN 55426 612/933-8880

April 7, 1981

Mr. Richard L. Koppy
Director of Public Works
City of St. Louis Park
5005 Minnetonka Boulevard
St. Louis Park, Minnesota 55416

Re: PROPOSED BRIDGE NO. 27621
LOUISIANA AVENUE OVER B/N
S.P. NO. 163-276-15

Dear Mr. Koppy:

We have developed a chronology for the referenced project,through an in-depth search of the relevant files. The resulting list of events covers three pages of standard typed paper, single-spaced.

A distillation of this chronology is enclosed for your information. In this enclosed list, I have selected those events which divide the productive time from the time imposed by regulation -- which approach will, I hope, give you the data you were looking for.

The totals show the result that you and I expected. The project required 167 weeks and one day from the day we signed the agreement until we turned in the last document to MnDOT. This time period covers parts of five years.

Stretching the definition of "productive" time as far as we can, we find 67 weeks and one day of time when our work was "productive" in a bar chart sense of stops and starts. There is a total period of 100 weeks and no days that was devoted to waiting for various reviews.

Further, however, is a period of 8 weeks and one day in 1981 that we counted as "productive" in which all we were doing was the publication of the notice of location and design approval and its affidavit, along with consulting with the City on right-of-way matters.

There is another so-called "productive" period of 21 weeks and no days, spent in developing the 4 (f) statement and two later periods of re-write totaling seven weeks and four days. Thus, the 4 (f) statement required 28 weeks and 4 days of the total.

If the 8 weeks and one day of "mop-up" operations in 1981 is added to the 28 weeks and four days devoted to the 4 (f) statement, that total is 37 weeks and no days. The total "productive" time is 67 weeks and one day, as noted above. If this 37 weeks is subtracted, the resulting 30 weeks and one day is the time

Harold P. Bakke Elmer J. Kopp Charles L. Ballou Robert J. McFarlin William P. Mohr Lloyd V. Boling Chester I. Ouick
Robert L. Sprengeler Roger O. Cole Peter H. Herzog Thomas W. Williams Wesley C. Mattson Ronald L. Dobbin
Richard L. Feig Robert D. Siegfried Thomas J. Downs

devoted to producing the project.

"30 weeks and one day, compared to 167 weeks and one day, is a devastating indictment of the federal process, but it is the truth and can be defended in all particulars.

The 4 (f) requirement, in this case, was especially unreasonable. The characteristics were (a) no adverse environmental impact of any kind, (b) no objection of any kind from even one citizen or group, (c) an actual environmental improvement, and (d) a matter of public safety that required (and should have received) immediate attention. The extremism of the federal reviews in such a case seems inexcusable and indefensible to us.

I would be pleased to review any of these matters with you at your convenience, or with the council. Please give me a call if any further data would be helpful or if there is any further question.

Yours very truly,

BAKKE KOPP BALLOU & McFARLIN, INC.

By: Robert J. McFarlin
Robert J. McFarlin, P.E.

RJM:kjn

Enclosure

PROPOSED BRIDGE NO. 27621
isiana Avenue over B/N
. No. 163-276-15

## SELECTED CHRONOLOGY

| | DATE | ITEM | PRODUCTIVE | NON-PRODUCTIVE |
|---|---|---|---|---|
| Wednesday | 12/14/77 | BKBM Signs Agreement | | |
| | | | Data Collection and Preparation of Design Report 5 weeks, 3 days. | |
| Friday | 1/20/78 | Draft Design Report to City | | |
| | | | City's Review and final Revisions by BKBM to Design Report 2 weeks, 0 days. | |
| Friday | 2/3/78 | Final Design Report to City | | |
| Monday | 2/6/78 | Council Approval | | |
| | | | Preparation of Preliminary Plans 2 weeks, 0 days. | |
| Friday | 2/17/78 | Submittal of Preliminary Plans to Mn/DOT | | |
| | | | | Review Period for Preliminary Plans. 18 weeks,0 days (See notes 1 and 2) |
| Friday | 6/23/78 | Preliminary Plans approved by MnDOT | | |
| | | | Preparation of Final Plans 2 weeks, 3 days. (See note 3) | |
| Wednesday | 7/12/78 | Final Plans (Bridge) Submitted to MnDOT | | |
| | | | Preparation of Project Develoment Report (PDR) 5 weeks, 3 days (See note 4) | |

| | | | | |
|---|---|---|---|---|
| Monday | 8/21/78 | "Final Draft" PDR Submitted to MnDOT | | |
| | | | | Review Period for Final draft PDR<br>14 weeks, 1 day<br>(See note 5) |
| Tuesday | 11/28/78 | FHwA concurs in non-major action and moderate level path (approves PDR) | | |
| Monday | 12/4/78 | MnDOT notifies City that a Section 4(f) Report will be required | | |
| | | | Preparation of several drafts of 4(f) report, with meetings, comments, etc<br>21 weeks, 0 days<br>(See notes 6 & 7) | |
| Tuesday | 4/24/79 | Submittal of Draft Section 4(f) Report to MnDOT | | |
| | | | | Review period for "pre-final" draft 4(f) statement<br>16 weeks,1 day<br>(See note 8) |
| Wednesday | 8/15/79 | Notification about re-writing of the 4(f) statement | | |
| | | | Re-writing of the 4(f) Statement<br>3 weeks, 1 day.<br>(See note 9) | |
| Thursday | 9/6/79 | Re-written "Draft" 4(f) Statement submitted to MnDOT | | |
| | | | | Review period for Draft 4(f) Statement<br>8 weeks,0 days.<br>(See note 10) |

| | | | | |
|---|---|---|---|---|
| ursday | 11/1/79 | Comments FHwA to MnDOT on 4(f) Statement | | |
| | | | (Apparently) a further re-write of 4(f) statement in response to FHwA comments<br>4 weeks, 3 days. | |
| Tuesday | 12/4/79 | MnDOT notifies City of FHwA approval of Draft 4(f) Statement | | |
| | | | | A period of miscellaneous reviews<br>10 weeks, 1 day.<br>(See note 11) |
| | | | Preparation of "Pre-draft" Location and Design Study Report (LDSR)<br>4 weeks, 0 days.<br>(See note 12) | |
| Wednesday | 3/12/80 | "Pre-draft" of Location and Design Study Report (LDSR) submitted to MnDOT | | |
| | | | | Review period of LDSR (and also of 4(f))<br>9 weeks, 3 days.<br>(See Note 13) |
| Monday | 5/19/80 | Notice to Proceed with Location and Design Study Report (LDSR)<br>(See note 14) | | |
| | | | Preparation of final Location and Design Study Report (LDSR)<br>0 weeks, 4 days.<br>(See note 14) | |

| | | | | |
|---|---|---|---|---|
| Friday | 5/23/80 | Submittal of final Location and Design Study Report (LDSR) | | |
| | | | | Review period for final Location and Design Study Report (LDSR)<br>15 weeks, 2 days<br>(See note 15) |
| Tuesday | 9/9/80 | Notice of approval of final LDSR, and permission to prepare plans, specs., etc. | | |
| | | | Final birdge plans updated, reviewed and re-submitted<br>2 weeks, 0 days | |
| Tuesday | 9/23/80 | Submittal date of final bridge plans to MnDOT | | |
| | | | | Review period for final plans, FHwA & MnDOT<br>8 weeks, 2 days |
| Thursday | 11/20/80 | Return of plans with comments from MnDOT | | |
| | | | Revisions to bridge plans, finalizing of special provisions, re-contacting of agencies<br>5 weeks, 3 days. | |
| Tuesday | 12/30/80 | Submittal of final plans (tracings) and special provisions | | |
| | | | Period in which city was free to investigate right-of-way acquisition. No formal activity by BKBM<br>8 weeks, 1 day | |

| | | |
|---|---|---|
| Thursday | 2/26/81 | Affidavit of Publication regarding Location and Design Approval sent to MnDOT: which is the final submittal and completes the project. |

| | |
|---|---|
| Total elapsed time 12/14/77 thru 2/26/80: | 167 weeks, 1 day |
| Productive activity by BBKBM: | 67 weeks, 1 day |
| Non-productive time (reviews, etc.): | 100 weeks, 0 days |

NOTES

1. During the review period 2/17/78 thru 6/23/78, a number of miscellaneous items were accomplished. Among these were submittal of preliminary plans to B/N and approval by B/N, meetings with the several utility companies involved, meeting with a bridge contractor, and meetings with MnDOT regarding roadway requirements.

2. During the review period 2/17/78 thru 6/23/78, notification was received from MnDOT (5/19/78) that federal funds would be used. From that date forward, the procedures for a federal-aid project were followed.

3. In order to accellerate the project, BKBM had been working on final plans (at its own risk) during the review period 2/17/78 thru 6/23/78 and was well along with these plans by the preliminary approval date of 6/23/78. The very short final plan preparation period of 2 weeks and 3 days requires this explanation for proper understanding.

4. Work on the PDR began just after 5/19/78 and included preliminary informal submittals leading up to what is called in federal jargon, a "final draft".

5. During the PDR review period, it was found to be possible to accomplish some other minor requirements. These included further dealings with utilities, review of traffic control, a lengthy review of bridge width with FHwA, and the formal notification of agencies.

6. The 21 weeks of "productive" time begins 11/28/78 when BKBM knew (informally) that the 4(f) report would be needed.

7. During the preparation of the 4(f) report, once again, a group of useful actions were taken. They included revision of bridge plans for the width required by FHwA, additional efforts on traffic control, preparation of cost estimates, and the Railroad Company's force account agreement.

8. Other items dealt with during this review period (4/24/79 thru 8/15/79) included a response to comments by the Department of Interior and a conclusion to the Railroad Company's force account agreement.

9. During this three-week re-write period, a small portion of the deck slab on the existing bridge collapsed. This collapse occurred near the expansion joint on the northwest corner. A report on recommneded repairs and costs was submitted 9/4/79.

10. During this review period, the city completed the repair of the partially-collapsed deck slab.

11. This time period includes the two notices for public hearings, more comments by FHwA on the 4(f) Statement, preparation of the "Pre-final" and the "Final" 4(f) statements. The extent of this time period is derived in note 12, following.

12. The exact date of the start of work on the LDSR is not precisely known. From experience, we know that the time requirement is two or three weeks at the most. We therefore used four weeks as a generous allowance for the "productive time" involved in preparation of the LDSR, and the rmainder of the period 12/4/79 thru 3/12/80, which was taken up by waiting periods and a few more 4(f) comments, was listed as "non-productive".

13. During this period, the roadway plans were submitted to the City for information, and the "bill of sale" was prepared to transfer title to the old bridge from the Railroad to the City. Also, on 3/13/80, the FHwA approval (apparently final and total) of the 4(f) statement was received at MnDOT.

14. The notice to prepare the LDSR actually occurs after federal approval of the 4(f) Statement, which in turn occurred on 3/13/80 (see note 13 above). The "Pre-draft" LDSR, which BKBM submitted on 3/12/80, has no actual standing in the process, and was done (at the risk of BKBM) to try to accellerate the process. MnDOT cooperated by reviewing this informal pre-draft so that the final LDSR was ready to be turned in almost immediately after the notice arrived to prepare it.

15. During this period, the sale of the old bridge to the City was finalized, and the legal notice about request for L & D approval was published.

ACEC File #700.01

american
consulting engineers
council

1015 FIFTEENTH STREET, N.W., WASHINGTON, D.C. 20005-2670 ☐ (202) 347-7474
Telex: 897445 AMCONENGRC WSH

August 2, 1983

The Honorable Robert T. Stafford
Chairman
Committee on Environment and Public Works
416 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairman Stafford:

On behalf of the American Consulting Engineers Council, I am pleased to provide the following responses to your written questions regarding the nation's infrastructure.

Question #1: What is your view on the need and value of an assured funding mechanism--possibly through a form of dedicated revenues--to finance an infrastructure program?

Answer: ACEC believes that each segment of the infrastructure should be renovated and maintained on a user-pay basis. On this basis, the Federal Government's participation would be similar to what it currently is in the Federal Aviation Administration's ADAP program or the Federal Highway Administration's road and bridge programs. In these instances, taxes are collected from users of airports or highways and dedicated toward partial funding of the rehabilitation and upkeep of these segments of the infrastructure. We believe such "user-pay" taxes or assessments can be established for every segment of the infrastructure. We also believe that a greater percentage of the money collected reaches "brick and mortar" in the facilities if the revenues are kept close to the governmental level where they are used.

Question #2: To what degree should the state programs under Title I of S. 1330 become self-sustaining?

Answer: We believe that the state programs under Title I of S. 1330 should be totally self-sustaining, both the portions funded from revenues collected by the Federal Government, if any, as well as the portion funded by revenues from the state government.

*President* SHELBY K. WILLIS Salina, Kansas • *Senior Vice President* VERNON B. SPALDING, Madison Heights, Michigan
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*Executive Vice President* LARRY N. SPILLER • *Managing Director* BRUCE E. VOGELSINGER

Question #3: What specific items would you include in an authorized infrastructure program--water supply, jails, hospitals, culture, recreation?

Answer: ACEC defines the public infrastructure as including roads, bridges, airports, inland waterways, port facilities, water supply and distribution facilities, sewage collection and treatment facilities, drainage facilities, parks, public schools, libraries, public hospitals, jails, and governmental administration buildings. In essence, all public facilities for which "users" or benefit districts can be identified and "usage fees" can be systematically collected.

Question #4: What would be the one or two most effective things the Congress could do to strengthen the infrastructure of our nation?

Answer: First, adopt a federal capital budget as a separate budget within the unified federal budget. Information required for this budget could be cost-effectively and efficiently compiled by designating an agency to administer an inventory of all segments of the infrastructure including each facility's condition and cost estimate for restoring it to acceptable standards and maintaining it in that condition.

Second, designate the Congressional Budget Office to develop guidelines for defining users or benefit districts including suggested methods of taxing or assessing to obtain revenues to fund each segment of the infrastructure with minimum federal government participation.

Thirdly, Congress should comprehensively review all current agency regulations to assess the actual economic impact of each regulation on public facility project costs. This review would include not only the cost of paperwork compliance, but also the additional costs of project delays caused by agency regulatory review processes and the costs of peripheral regulations (i.e. fish and wildlife enhancement, Davis Bacon wage requirements, Buy American provisions, etc.) Following this assessment, regulations should be streamlined to reflect only "primary" infrastructure project purposes and not "incidental purposes".

Question #5: Can the infrastructure needs of this nation be met without additional Federal support, without additional Federal spending?

Answer: We believe that the infrastructure needs of the nation, other than those which were constructed for the use of the Federal Government, can and should be funded with a minimum of Federal spending. Not only would locally funded projects "stretch" project dollars, but requiring greater "equity" among local project sponsors would enhance local responsibility for on-going maintenance needs. However, state and local government entities must be provided greater opportunities for generating revenues through creative financing vehicles. Privatization, tax incentives for public- and private-purpose bonding, and increased user fees should be legislatively encouraged.

Also, we must again stress the importance of reducing project costs by reducing federal regulations.

Question #6: To what extent do you believe users should be required ultimately to pay for infrastructure projects?

Answer: As has been indicated in our responses in previous questions, we believe users should fund 100 percent of infrastructure projects.

Question #7: Do you believe priorities should be set primarily on new projects or repair old ones? What mix is best?

Answer: A proper inventory and analysis of the present condition of the infrastructure with estimates of cost of restoration compared to estimates of cost of replacement will determine when to replace versus repair existing facilities. Let economics determine the mix between new construction and repair of existing facilities.

Thank you, Mr. Chairman, for providing ACEC this opportunity to further present our views. Please don't hesitate to contact us if you have additional questions.

We look forward to continuing to work with you and the Committee regarding this important issue.

Sincerely,

Shelby K. Willis

Shelby K. Willis
President

**American Planning Association**

Please reply to:
1776 Massachusetts Ave. NW
Washington, DC 20036
Phone 202.872.0611

1313 E. 60th St.
Chicago, IL 60637
Phone 312.955.9100

July 15, 1983

The Honorable Robert Stafford
Chairman
Senate Environment and Public Works Committee
SD-410 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairman Stafford:

The American Planning Association is convinced that a planning process for capital improvements is an essential ingredient of federal public works and infrastructure legislation. A Task Force of our leading members recommends federal encouragement and funding for a capital improvements programming (CIP) process together with infrastructure construction assistance.

We suggest that adopted state and local CIPs become a requirement for federal assistance. Capital improvements programming provides a process through which government can effectively use limited resources for capital improvements. Decisions about projects are based on analysis of short- and long-term needs; the cost-effectiveness of projects is defined; alternatives to new construction are analyzed; sources of public and private funding are evaluated; priorities to meet both job and development needs are considered; and citizens are consulted.

The Association's recommendations are set forth in the attached statement of principles: we recommend that federal assistance for infrastructure be granted only to projects selected through adopted CIPs; that project eligibility be broadly defined; that a set-aside for strengthening or initiating the CIP process be a part of federal legislation; that recipients include general purpose units of government from state to local as well as special districts and regional councils; that funds be disbursed through a block grant approach for maximum local flexibility; and that monotoring procedures be a part of the legislation.

Since the Environment and Public Works Committee is now considering S.23, S.532, and S.1130, we would like to state for the record that APA also supports the establishment of a federal capital budgeting process. We respectfully request that this letter be made

(Continued)

President
Robert C. Einsweiler, AICP

President-Elect
Bruce W. McClendon, AICP

Executive Director
Israel Stollman, AICP

The Honorable Robert Stafford
July 15, 1983
Page Two

part of the official record of the Committee's July 15th hearing.

Please call on me (at 212/398-1140), or George T. Marcou, AICP, Director of National Planning Policy, or Nancy P. Schamberg, AICP, APA's Government Affairs Coordinator (at 202/872-0611) for further assistance. We would like to elaborate on these principles.

Sincerely yours,

Richard T. Anderson

Richard T. Anderson, AICP
Executive Vice President
Regional Plan Association of New York
and
Chairman, APA Infrastructure Task Force

Enclosures

APA
**American Planning Association**
1776 Massachusetts Ave. NW
Washington, DC 20036
Phone 202 872 0611

## PRINCIPLES FOR THE USE OF CAPITAL IMPROVEMENTS PROGRAMMING IN FEDERAL JOB-CREATION/PUBLIC WORKS/INFRASTRUCTURE LEGISLATION

The Federal government should encourage better decision-making at the state and local levels in deciding whether the nation's capital stock should be preserved or replaced and what new facilities are to be built. The importance of the process cannot be overemphasized; the goal is to have local governments meet their most pressing capital needs rather than pursuing grants. Therefore, funds should be made available for a wide range of capital needs and for capital budget planning.

The American Planning Association recommends the following six principles so that Federal assistance legislation will encourage the use and adoption of state and local capital improvements programs and assure that projects selected by states and localities to alleviate unemployment will also meet the longer term objectives of these units of government.

1. Federal assistance for public works would be granted to those projects that are included in adopted capital improvements programs of state and local units of government. These programs would include:

    - A plan and priority schedule for capital expenditures to be incurred each year over a fixed period of years (normally six) to meet capital requirements arising from the long-term needs and plans of the local units of government. The plan should be based on a comprehensive needs analysis including the appraisal of existing improvements,

    - The cost of each project including an analysis of alternatives to new construction (such as repairing existing facilities) and the cost-effectiveness of each project.

    - Sources of funding for each project, including public and private sources, user fees, private gifts, lease-back arrangements, current revenues, reserve funds, general obligation or revenue bonds, lease-purchase agreements, special assessments, tax increment financing, as well as state and federal grants. The use of private funds in supplementing public expenditures should be maximized. State and local sources of funding should be reflected in their budgets.

    - Priorities should be given to:

        - Projects that will create jobs and a base of employment that can continue over a period of time.

        - Projects that can serve as leveraging to retain or attract economic development activities.

        - Projects that are needed to promote orderly development of the community.

        - Projects that remedy conditions dangerous to the public health and safety.

        - Projects that maximize the use of private funds.

- The local government's capability to administer and manage as well as to construct and operate the capital facility over the long term should be stated.

- Citizen participation must be a part of decision-making of major capital improvements.

- Unless otherwise specified by law, the capital improvements program should be reviewed and approved by the local planning body, the chief executive and the elected legislative body of the community.

- Funding for eligible capital improvements should be broadly defined to include construction, maintenance or replacement (as well as land acquisition) of the capital project.

- Eligible projects should also be broadly defined to include the full range of capital projects undertaken by states and local governments.

- The capital improvements program should be in conformance with adopted comprehensive plans and fiscal plans.

2. Federal funds should be made available to all recipients to strengthen and update capital improvements programs or to initiate and establish programs where they do not exist, such as a percentage set-aside.

3. Recipients should include general purpose units of government from state to local, as well as special districts which are often responsible for capital improvements. Regional councils should be funded to coordinate region-wide capital investments.

4. To provide maximum flexibility to states and localities in making priority decisions, the preferred method of dispersing federal funding would be through a block grant, meeting the requirements outlined above. Consideration should be given to using existing delivery systems modified as needed.

5. Monitoring procedures would be required to make certain that funding meets Congressional objectives.

6. A separate but vital supplement to any federal assistance to state and local governments for infrastructure and public works is the establishment within the executive branch of a Federal Capital Budgeting process that would incorporate the principles described above at the Federal level. Such a process could provide guidance to states and local units of government in relating their capital improvements programs to a similar Federal-wide program.

ARTBA
American Road & Transportation Builders Association

July 15, 1983

STATEMENT OF
AMERICAN ROAD & TRANSPORTATION BUILDERS ASSOCIATION
DANIEL J. HANSON, SR., PRESIDENT
TO THE
UNITED STATES SENATE
COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS

RE: PROPOSED INFRASTRUCTURE BILLS

The American Road & Transportation Builders Association presented a statement to this Committee on April 18, 1983, outlining its views on proposed legislation to repair and revitalize the nation's infrastructure. We are pleased that the committee is continuing its work in this area and has scheduled an additional hearing to receive new testimony on this subject.

Since the submission of our previous statement, the nation's attention has been directed once again to the critical problem of deteriorating and failing bridges. The recent collapse of a section of a heavily used Interstate System bridge in Connecticut has once again focussed attention both on the vulnerability of our transportation system, with respect to bridges, and the necessity to proceed as vigorously as possible with the national bridge replacement and rehabilitation program.

This Committee need not go very far from the U. S. Capitol to find glaring examples of this problem. The Chain Bridge has recently been reconstructed. The Woodrow Wilson Bridge (I-95) over the Potomac River between Maryland and Virginia is currently under major reconstruction. Recently the Cabin John Bridge (I-495), located on the Capitol Beltway, was partially closed due to a large hole in the bridge deck. The Kutz Bridge at the Tidal Basin is currently being reconstructed and the Key Bridge, between Georgetown and Rosslyn, is high on the list to be rebuilt in a couple of years. The list here in our Nation's Capitol and around the country is truly endless.

Recently, the U. S. Department of Transportation has submitted to Congress its fourth annual report on the progress of the bridge program. The report indicates that 44.8 percent of the nation's 565,443 highway bridges are currently structurally deficient or functionally obsolete. Since last year's report, the number of deficient bridges has increased by 2 percent and the estimated cost of correcting deficiencies has increased from $47.6 billion to $48.9 billion.

The problem is being addressed by the bridge replacement and rehabilitation program which is included in the Surface Transportation Assistance Act of 1982. This approach is correct and proper, however, progress has been painfully slow.

The Surface Transportation Assistance Act of 1982 authorized approximately $7 billion in Federal funds for the bridge replacement and rehabilitation program over a 4-year period. The matching ratio for this program is 80-20. Thus the total program, including Federal-aid funds and state matching, will amount to about $8.75 billion. At this rate of progress, it will take nearly a quarter of a century to correct those bridge deficiencies that have already been identified. Meanwhile, we can expect that about 3,500 additional bridges per year will be added to the backlog of bridge deficiencies.

The American Road & Transportation Builders Association strongly recommends the following action effective in Fiscal Year 1984. The bridge authorization program should be increased to $4 billion per year. In view of the already well documented needs in this area and the critical safety requirements, this program should be converted to a 90-10 matching ratio. This would provide a $4.4 billion bridge program annually in lieu of the current $2.2 billion per year program. The first question is obviously where will we find all this new money.

In this regard, it is significant to note that the "check-book" balance" of the Highway Trust Fund, as of May 30, 1983, exceeded $8.6 billion. During the month of May, 1983, the balance in the Highway Trust Fund actually increased by almost $300 million. The balance in the Highway Trust Fund represents funds already paid in by the highway users of America for highway improvements which have not yet occurred. This balance should be reduced to the amount necessary to ensure liquidity, or about $2 billion.

The ARTBA recommendations listed above would provide an opportunity to "catch up" on our current bridge needs in eleven years instead of a quarter of a century. We will be pleased to work with the Committee and its staff in developing accurate estimates of the amount of additional authorizations which can be made without endangering the fiscal integrity of the Highway Trust Fund. We look forward to many opportunities to work with you as you continue to address the nation's total infrastructure needs.

Congressional Research Service
The Library of Congress

Washington, D.C. 20540

# PUBLIC CAPITAL INVESTMENT AS A PERCENTAGE OF GROSS DOMESTIC PRODUCT IN THE UNITED STATES AND SELECTED FOREIGN COUNTRIES, 1960-1980

Vladimir N. Pregelj
Specialist in International Trade & Finance
Economics Division
May 4, 1983

PUBLIC CAPITAL INVESTMENT AS A PERCENTAGE OF GROSS DOMESTIC PRODUCT IN THE UNITED STATES AND SELECTED FOREIGN COUNTRIES, 1960-1980

The attached table gives annual data on gross capital investment of general government as a percentage of gross domestic product in 1960-1980 for the United States, Canada, Japan, West Germany, France, and the United Kingdom. Percentages have been calculated from basic data published by the Organization for Economic Cooperation and Development in its publication National Accounts of OECD Countries.

Data for public capital investment have been taken from country tables in the source, showing income and outlay transactions of general government. General government comprises all agencies or instruments of the central, state, or local public authorities, including non-profit institutions which, while not an integral part of a government, are wholly, or mainly, financed and controlled by the public authorities, or primarily serve government bodies; social security arrangements imposed, controlled, or financed by a government; and government enterprises which mainly produce goods or services for government itself, or primarily sell goods or services to the public on a small scale. Excluded are other government enterprises and public corporations.

Capital investment data are those shown in the source at the entry for "gross capital formation," which includes increases in stocks as well as fixed capital formation. Separate data on fixed capital formation as a government outlay are not available. It is highly unlikely, however, that the inclusion of increases in stocks in public capital investment significantly distorts the data for purposes of this comparison.

Gross fixed capital formation is defined in the source as the outlays (purchases and own-account production) for additions of new durable goods to stocks of fixed assets less net sales of similar second-hand or scrapped goods. Excluded are outlays of government services fordurable goods for military use. Included are acquisitions of reproducible and nonreproducible durable goods, except land, mineral deposits, timber tracts, and the like, for civilian use.

Since the source does not give data on gross national product (GNP) but only on gross domestic product (GNP), the latter have been used for the calculation of the desired percentage. The difference between GNP and GDP is not sufficient to distort significantly the results.

In comparing the percentage ratios of the United States with those of other countries, one has to keep in mind that in foreign countries (somewhat less so in Canada) governments have a dominant or at least substantial role in several areas of capital investment which, in the United States, are left entirely or substantially to private initiative. The more obvious of such areas are: railroads, telecommunications, education, and cultural facilities (theaters, museums, art galleries). As a result, public capital investment in the United States (and to some extent Canada) encompasses a smaller array of activities and services to the public at large than in other countries and, consequently, is likely to be smaller in relation to the GDP.

## Gross Capital Outlays of General Government as a Percentage of Gross Domestic Product, 1960-1980

| | U.S. | Canada | Japan | Germany | France | U.K. |
|---|---|---|---|---|---|---|
| 1960 | 2.53 | 3.90 | - | 3.10 | - | 3.31 |
| 1961 | 2.67 | 4.19 | - | 3.31 | 3.01 | 3.41 |
| 1962 | 2.67 | 4.37 | - | 3.77 | 3.39 | 3.66 |
| 1963 | 2.85 | 4.24 | - | 4.28 | 3.61 | 3.69 |
| 1964 | 2.80 | 3.87 | - | 4.76 | 3.94 | 4.27 |
| 1965 | 2.84 | 4.34 | 4.46 | 4.32 | 4.13 | 4.25 |
| 1966 | 2.93 | 4.54 | 4.71 | 4.16 | 4.08 | 4.50 |
| 1967 | 2.96 | 4.43 | 4.29 | 3.59 | 4.27 | 4.97 |
| 1968 | 2.86 | 4.11 | 4.31 | 3.68 | 4.38 | 5.08 |
| 1969 | 2.62 | 3.80 | 4.29 | 3.79 | 4.05 | 4.92 |
| 1970 | 2.48 | 3.66 | 4.47 | 4.34 | 3.85 | 4.86 |
| 1971 | 2.59 | 3.89 | 5.04 | 4.23 | 3.71 | 4.57 |
| 1972 | 2.20 | 3.76 | 5.47 | 3.88 | 3.64 | 4.38 |
| 1973 | 2.22 | 3.45 | 5.67 | 3.61 | 3.32 | 5.08 |
| 1974 | 2.33 | 3.69 | 5.22 | 3.87 | 3.36 | 5.31 |
| 1975 | 2.31 | 3.81 | 5.30 | 3.73 | 3.80 | 4.78 |
| 1976 | 1.91 | 3.30 | 5.18 | 3.39 | 3.30 | 4.39 |
| 1977 | 1.76 | 3.23 | 5.57 | 3.14 | 3.05 | 3.41 |
| 1978 | 1.99 | 3.07 | 6.18 | 3.25 | 2.86 | 2.86 |
| 1979 | 1.82 | 2.79 | 6.42 | 3.47 | 2.90 | 2.62 |
| 1980 | - | 2.73 | 6.27 | 3.76 | 2.88 | 2.50 |

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Note: Data for Japan 1960-1964, France 1960, and the United States 1980 are not available.

Source: OECD. National accounts of OECD countries, 1960-1977, vol. II; 1963-1980, vol. II.

II

98TH CONGRESS
1ST SESSION

# S. 1330

To authorize the United States Army Corps of Engineers to provide grants to the several States to encourage and foster the construction of necessary public capital investment projects, and fcr other purposes.

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IN THE SENATE OF THE UNITED STATES

MAY 19 (legislative day, MAY 16), 1983

Mr. STAFFORD (for himself and Mr. RANDOLPH) introduced the following bill; which was read twice and referred to the Committee on Environment and Public Works

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# A BILL

To authorize the United States Army Corps of Engineers to provide grants to the several States to encourage and foster the construction of necessary public capital investment projects, and for other purposes.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That this Act may be cited as the "Public Capital Investment Act of 1983".

## TITLE I—PUBLIC CAPITAL INVESTMENT

SEC. 101. (a) The Congress finds and declares that—

(1) a sustained program of public capital investment is essential for the Nation's continued prosperity and long-term economic vitality;

(2) building, rehabilitation, and maintaining the Nation's public capital investment will produce jobs during the period of construction, and then create long-term economic efficiencies that benefit the economy and all Americans; and

(3) the annual expenditure by the American people for new or renovated public capital investment projects has declined in recent years by more than 50 per centum, as a percentage of the gross national product.

(b) It is, therefore, the policy of the United States that—

(1) the declining trend in public capital investment should be reversed;

(2) any strategy for wise public capital investment must be long range and sustained;

(3) because of climatic, historic, and economic differences, the several States can more effectively establish realistic priorities for most public capital investment decisions than the Federal Government; and

(4) any long-term public capital investment program should involve a partnership between the Federal Government and other levels of government.

Sec. 102. The Secretary of the Army, acting through the Chief of Engineers (hereinafter in this Act referred to as the "Secretary") is authorized to make grants to any State under procedures established by the Secretary pursuant to this title for the purpose of the construction or rehabilitation of public capital investment project.

Sec. 103. (a)(1) Any State may submit to the Secretary an application for a public capital investment grant under this title. Such application shall contain information, as the Secretary shall require, to detemine that—

(A) sums granted to the State under this title will be utilized exclusively for the purpose of improving the public capital investment in such State;

(B) the State will contribute annually from non-Federal revenues, a sum no less than the sum it receives annually under this title, with such State moneys to be used exclusively for the purposes of improving the public capital investment in such State;

(C) moneys granted to the State under this title, or provided by the State to meet the requirements of this title, will be placed in an appropriate fund (hereinafter in this title referred to as the "Fund"), established pursuant to State law, and will be utilized exclusively to construct or rehabilitate public capital investment projects undertaken as a result of a plan developed by such State, after public hearings, that establishes priorities and is applicable to such investments throughout such State;

(D) the State requires repayment into the Fund of user charges or other payments sufficient to maintain such Fund for the foreseeable future so that the Fund will continue to be available to finance public capital investments throughout such State following the termination of this title;

(E) the State requires that any project constructed or rehabilitated using funds provided by this title will be maintained and repaired on a scheduled basis during its useful life, utilizing moneys other than those available under the terms of this title;

(F) the State has established, in connection with projects to be financed under the terms of this title, training programs satisfactory to the Secretary that are designed to assure that work on the design, construction, rehabilitation, maintenance, repair, and operation of projects constructed with moneys made available under this title are fully available to women and persons of ethnic or racial groups that are economically disadvantaged, including provisions for child-care facilities to serve persons employed on such project;

(G) the State will permit access, on a reasonable basis, to representatives of the Secretary to review the operation of the Fund in order to assure the State's compliance with this section; and

(H) if such State contains one or more cities with a population exceeding 250,000, that such city or cities shall be assured, over any five-year period, the receipt of its proportional share of the moneys in the State Fund, based on the city's population as a percentage of the population of the State.

(2) Whenever the Secretary finds that a State has met the requirements under paragraph (1) of this subsection, the Secretary shall within thirty days approve the application, and such States shall receive a grant under the terms of this title.

(b)(1) Once approved for a grant under this title, a State shall receive subsequent annual grants under this title, provided the Secretary does not find, as a result of periodic audits pursuant to subsection (a)(1)(G) of this section, that such State has failed to maintain its program substantially as originally proposed.

(2) Whenever the Secretary finds under paragraph (1) of this subsection that a State has failed to maintain its program

substantially as originally proposed, the Secretary shall withdraw approval of the grant, and refuse to make any additional grants to such State under this title until such State has submitted a new application under this title, and such application is reviewed and approved by the Secretary under the terms of this section.

(c) Moneys received by a State under this title may be utilized by the State, or loaned to any local unit of government in such State, for the purposes of public capital investments.

(d) Following action to meet the requirements of subsection (a)(1)(H) of this section, if appropriate, two or more States may utilize moneys deposited in the Funds in such States for use to finance a regional authority, if the primary purpose of such authority is to construct and rehabilitate public capital investments of a regional character.

SEC. 104. (a) Sums appropriated under this title shall be made available to the States on the basis of a formula, established by the Secretary, based 50 per centum on the population of the State, as a percentage of the population of all the States, and 50 per centum on the basis of the paved highway mileage in the State, as a percentage of the paved highway mileage in all the States: *Provided, however,* That no State identified under section 301(a)(6)(A) of this Act shall receive less than one-half of 1 per centum of the funds made available annually under this title, if such State's application is approved by the Secretary.

(b)(1) Sums allocated to any State in any given fiscal year, for which an application is not received from such State for such sums, shall be returned to the Treasury of the United States on the first day of the succeeding fiscal year.

(2) Sums allocated to any State in any given fiscal year, for which an application for such sums is not approved by the Secretary, shall be returned to the Treasury of the United States on the final day of the succeeding fiscal year.

SEC. 105. (a) Each Federal agency shall review and, where necessary, revise its rules and regulations to assure, consistent with existing law, that any permit to be issued by the United States will be reviewed and acted upon expeditiously when such permit is necesary for the repair or rehabilitation of any public capital investment undertaken by a non-Federal public body.

(b) The Secretary, together with other appropriate Federal officials, shall seek to develop and publish criteria and information on techniques for establishing inventories of existing and needed public capital investments that will be consistent among Federal agencies, the several States, and other local units of government.

SEC. 106. Of those sums made available annually to the Secretary pursuant to this title, one-quarter of 1 per centum shall be allocated by the Secretary to support research and development activities intended to augment the cost effectiveness of the Nation's system of public capital investments. The Secretary may, under this section, contract with appropriate non-Federal research organizations.

SEC. 107. On April 15 of the year following enactment of this Act, and on each April 15 thereafter, the Secretary shall report to Congress on the disbursement of funds under this title, and the use of those funds by participating States.

SEC. 108. In section 205 of the Clean Water Act, add a new subsection as follows:

"(l)(1) Notwithstanding any other provision of this title, any sums allotted to the States for the fiscal year ending September 30, 1983, the fiscal year ending September 30, 1984, and the fiscal year ending September 30, 1985, may be utilized for revolving loans or grants or combinations thereof for the construction of waste water treatment works, provided that the funding of such works meets with all applicable regulations concerning project eligibility and priorities for funding of the Administrator of the Environmental Protection Agency. Repayment of these loans shall be made to the States and the funds repaid may be used for additional loans or grants or combinations thereof, pursuant to this subsection.

"(2) Sums allocated to the States to be used in revolving loan programs shall be made available in total as grants to States at the time of allotment."

SEC. 109. There is authorized to be apropriated to the Secretary for the purposes of this title, including necessary administrative expenses, the sum of $5,000,000,000 for each of the fiscal years beginning with the fiscal year ending September 30, 1985, through the fiscal year ending September 30, 1994, with such sums to remain available until expended.

SEC. 110. Except for the provisions of sections 105 and 108 of this title, the authorities of this title shall terminate on October 1, 1994.

## TITLE II—STANDBY PUBLIC INVESTMENT

SEC. 201. (a) The Congress finds that—

(1) the state of the public capital investment of the Nation is critical to the economic welfare of the Nation;

(2) the Nation's economic strength is determined to a great extent by the economic vitality of its regions, States, and communities, and the status of the public capital investment in such States, regions, and communities;

(3) the maintenance of economic vitality serves the interest of the Nation and its citizens;

(4) unemployment, whether cyclical or permanent, produces great hardship for people; and

(5) government at all levels must be responsive to public need.

(b) In recognition of the findings in subsection (a) of this section, the Congress declares there is a need to—

(1) reverse decades of neglect in the public capital investment, and

(2) create a standby countercyclical program that will contribute to the renovation of public capital investments and long-term economic vitality to utilize the Nation's resources and manpower more effectively by employing them at a time when they would otherwise stand idle.

Sec. 202. (a) The Secretary is authorized to provide technical and planning assistance to States, local units of government, and Indian tribes for the development of long-range plans and programs for the construction, rehabilitation, and repair of public capital investment projects.

(b) A State, local unit of government, or Indian tribe may submit to the Secretary an application for a grant for planning or technical assistance, and, upon a satisfactory showing that the status of its public capital investment is threatened with deterioration, receive such assistance.

(c) Grants under this section shall be used, to the maximum extent possible, to develop an investment plan designed to coordinate future investment in public capital investment projects with economic development, the creation of jobs, and activities under title I of this Act.

(d) For the purposes of this section, there is authorized to be appropriated to the Secretary, for each of the fiscal years ending September 30, 1985, through September 30, 1994, the sum of $20,000,000, to remain available until expended.

SEC. 203. (a) There is established in the Treasury of the United States a "Counter-Cyclical Trust Fund" (hereinafter in this title referred to as the "Trust Fund"), consisting of the funds appropriated under the terms of this section: *Provided,* That the balance in the Trust Fund shall not accumulate in excess of $2,000,000,000.

(b) For the purposes of this section, there is authorized to be appropriated to the Secretary, for immediate transfer to the Trust Fund, the sum of $200,000,000 in each of the fiscal years ending September 30, 1985, through September 30, 1994, together with such additional sums as may be necessary to fulfill the purposes of this title, subject to the limitation contained in subsection (a) of this section.

(c)(1) Sums in the Trust Fund shall become available to the Secretary for distribution to approved projects following a declaration under the terms of section 206(b) of this title. Following any declaration under the terms of section 206(b) of this title, the Secretary shall utilize all of the moneys in the Trust Fund, or such portion of the Trust Fund as the Secretary deems necessary to fulfill the purposes of this title.

(3) No project shall receive funds from the Trust Fund unless such funds can be fully obligated within one year of the date such funds are made available.

SEC. 204. (a) The Secretary is authorized to agree to make grants for the repair, rehabilitation, or construction of public capital investments upon the application of any State, local unit of government, or Indian tribe. Such grants shall become available during the six-month period following a declaration under the terms of section 206(b) of this title.

(b) The percentage of any grant under this section shall not exceed 75 per centum of the cost of the work to be undertaken.

(c) Eligible public capital investments under this title include, but are not limited to:

(1) sewers and waste water treatment facilities,

(2) storm water collection systems,

(3) water treatment and distribution facilities,

(4) solid waste disposal facilities,

(5) urban streets, bridges, and roads not included on the Federal-aid system of highways,

(6) sidewalks,

(7) public transportation facilities (excluding rolling stock),

(8) parks,

(9) schools,

(10) libraries, and

(11) publicly owned historical properties and museums.

(d) Projects eligible for grant assistance under this section must be contained in any investment plan developed by a State under the terms of section 202(c) of this title, and have designs, specifications, and engineering acceptable to the Secretary. Such project must also be capable of having the funds for such project obligated fully within six months of the receipt of its grant.

SEC. 205. The Secretary shall, prior to approving any project for a State, local unit of government, or Indian tribe, determine that—

(a) the project is part of an areawide countercyclical investment plan, developed under the terms of section 202(c) of this title;

(b) the area, at the time of application, is suffering economic problems, as measured for the most recent six months for which data is available from the Bureau of Labor Statistics:

(1) per capita income that is 80 per centum or less of the national average, and

(2) unemployment has been, on average, 1 percentage point or more above the national average; and

(c) the applicant has not postponed its ongoing local public capital investment program, or the maintenance and rehabilitation thereof.

### PROGRAM TRIGGER

SEC. 206. The Secretary shall accept applications from jurisdictions eligible under the terms of section 205(b) of this title, in accordance with the provisions of section 204 of this title, whenever the Secretary determines that the Index of Total Industrial Production has declined for three consecutive months.

(b) Funds for the purposes of section 204 of this title shall be made available whenever the Secretary makes a finding, and publishes notification thereof in the Federal Register, that the rate of total civilian unemployment exceeds by at least 1½ percentage points the prevailing rate of unemployment recorded during the first month of observed decline in the Index used to initiate applications under the terms of subsection (a) of this section: *Provided*, That the specified increase in the rate of unemployment shall occur during a period not to exceed nine months.

## TITLE III—GENERAL PROVISIONS

SEC. 301. (a) For the purposes of this Act, the term—

(1) "public capital investment" means any facility owned or operated by a State, local unit of government, or other public agency or authority organized pursuant to State or local law, including, but not limited to, non-Federal-aid highways, streets, and bridges, mass transit, publicly owned rail transportation, airports, water supply and distribution systems, sewers, dams, resource recovery facilities, buildings (including schools and libraries), ports, waterways, docks, and parks;

(2) "construction" means the actual building of a new project at a site where no similar project previously existed, including the acquisition of land for such project and nonstructural alternatives, and the reconstruction of a project at an existing site or adjacent to an existing site;

(3) "rehabilitation" means the correction of structural flaws in a facility so as to extend the design life of such a facility;

(4) "repair" means the correction of a structural flaw in the facility without adding significantly to the design life of such facility;

(5) "maintenance" means routine and regularly scheduled activities intended to keep the facility operating at its designed specifications;

(6) "State" means (A) any State of the United States, and (B) the District of Columbia, the Commonwealth of Puerto Rico, Guam, American Samoa, the Northern Marianas Trust Territories, and the Virgin Islands; and

(7) "local unit of government" means, but is not limited to, any city, county, town, parish, village, or other general purpose political subdivision of a State.

(b) Nothing in this Act shall alter the requirements of the National Environmental Policy Act (42 U.S.C. 4343), the Fish and Wildlife Coordination Act (16 U.S.C. 661), the Endangered Species Act (16 U.S.C. 1530 et seq.), or title III of the Clean Water Act (33 U.S.C. 1311–1328).

(c) No grant under this Act shall be approved until the Secretary is satisfied that the project for which Federal assistance is to be granted will be properly and efficiently administered, operated, and maintained.

(d) In performing his duties, the Secretary is authorized to—

(1) adopt, alter, and use a seal, which shall be judicially noticed;

(2) hold such hearing, sit and act at such times and places, and take such testimony, as he may deem advisable;

(3) request directly from any executive department, bureau, agency, board, commission, office, independent establishment, or instrumentality information, suggestions, estimates, and statistics needed to carry out the purposes of this Act; and each department, bureau, agency, board, commission, office, establishment or instrumentality is authorized to furnish such information, suggestions, estimates, and statistics directly to the Secretary;

(4) acquire, in any lawful manner, any property (real, personal or mixed, tangible or intangible), whenever deemed necessary or appropriate to the conduct of the activities authorized by this Act;

(5) procure by contract the temporary or intermittent services of experts and consultants or organizations therefor as authorized by section 3109(b) of title 5, United States Code, compensate individuals so employed at rates not in excess of $100 per diem, including traveltime, and allow them, while away from their homes or regular places of business, travel expenses (including per diem in lieu of subsistence) in accordance with section 5703 of title 5, United States Code;

(6) sue and be sued in any court of record of a State having general jurisdiction or in any United States district court, and jurisdiction is conferred upon such district court to determine such controversies without regard to the amount in controversy; but no attachment, injunction, garnishment, or other similar process, mesne or final, shall be issued against the Secretary or his property. Nothing herein shall be construed to except the activities under this Act from the application of sections 517, 547, and 2679 of title 28, United States Code; and

(7) establish such rules, regulations, and procedures as he may deem appropriate in carrying out the provisions of this Act.

(e) The Secretary shall make a comprehensive and detailed annual report to the Congress of his operations under this Act for each fiscal year beginning with the fiscal year ending September 30, 1985. Such report shall be printed and shall be transmitted to the Congress not later than February 1 of the year following the fiscal year with respect to which such report is made.

(f) All laborers and mechanics employed by contractors or subcontractors on projects assisted by the Secretary shall be paid wages at rates not less than those prevailing on similar construction in the locality as determined by the Secretary of Labor in accordance with the Davis-Bacon Act, as amended. The Secretary shall not extend any financial assistance for such project without first obtaining adequate assurance that these labor standards will be maintained upon the construction work. The Secretary of Labor shall have, with respect to the labor standard specified in this provision, the authority and functions set forth in Reorganization Plan numbered 14 of 1950 (15 F.R. 3176; 64 Stat. 1267; 5 U.S.C. 133z–15), and section 2 of the Act of June 13, 1964, as amended (40 U.S.C. 276c).

(g)(1) Each recipient of a grant under this Act shall keep such records as the Secretary shall prescribe, including records which—

(A) fully disclose the amount and the disposition by such recipient of the proceeds of such grant, the total cost of the project or undertaking in connection with which such grant is given or used, and the amount and nature of that portion of the cost of the project or undertaking supplied by other sources, and

(B) review the efficiency, economy, and effectiveness of the project carried out.

(2) Not later than ten days after January 1 and July 1 of each year, each recipient shall transmit a report to the Secretary containing all information prescribed under paragraph (1) of this subsection which relates to all activities car-

ried out during the preceding period relating to grants. Each report submitted in January of each year shall include an audited statement of all funds spent on the project or undertaking during the preceding fiscal year prepared by an independent certified public accountant in accordance with the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions issued by the Comptroller General of the United States.

(3) For the purpose of reviewing the efficiency, economy, and effectiveness of programs carried out under the provisions of the Act, including audit and examination, the Secretary and the Comptroller General of the United States, or any of their duly authorized representatives, shall have access to any books, documents, papers, and records of any recipient, subrecipient, contractor, or subcontractor, that are pertinent to assistance.

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WILLIAM A. O'NEILL
GOVERNOR

STATE OF CONNECTICUT
EXECUTIVE CHAMBERS
HARTFORD

August 29, 1983

Honorable Robert T. Stafford
Chairman
Committee on Environment and Public Works
Unites States Senate
Washington, D.C. 20510

Dear Mr. Chairman,

Attached are additional comments in response to your letter and questions of July 20 and the hearing of July 15. Also attached for the record is a copy of the new NGA Work Plan for a National Employment Policy which includes a major section on the infrastructure.

I appreciate the opportunity to present the views of the nation's Governors on the various infrastructure issues.

Sincerely,

William A. O'Neill
Governor

Enclosures

## Additional Questions Submitted to Governor O'Neill

1. What is the view of NGA on the need and value of an assured funding mechanism — possibly through a form of dedicated revenues — to finance an infrastructure program?

ANSWER: NGA supports the existing use of dedicated revenues for transportation programs. NGA policy also supports the use of a portion of any new energy conservation tax for transportation purposes. NGA opposes the diversion of transportation user charges for other purposes such as the general fund.

2. To what degree should the state programs under Title I of S. 1330 become self-sustaining?

ANSWER: Programs established under Title I of S. 1330 would be "partnership" programs between the states and the Federal government, and as such each partner should enter into multi-year funding agreements, with agreed upon funding arrangements that cover dedicated revenues, matching rates, and maintenance schedules. Self-sustaining provisions should be limited to maintenance schedules and even these costs should be shared. States spent over $24 billion in 1981 on infrastructure projects. If any of the "partners" are behind in spending, it is the Federal government.

3. What specific items would you include in an authorized infrastructure program — water supply, jails, hospitals, culture, recreation?

ANSWER: No specific list of authorized projects should be developed. the focus should be on priority projects as determined by the state after consultation with its local governments. Each state has a different configuration of historical, financial and local government arrangements.

4. Can the infrastructure needs of this nation be met without additional Federal support, without additional Federal spending?

ANSWER: Most recent studies of infrastructure problems concludes that additional and in many cases, significant amounts of Federal assistance and spending will be necessary to maintain the nation's infrastructure. These studies also say that state, local and private spending must also increase dramatically. The problem is national and as such the solution must include a financial stake by all parties.

5. Enclosed is a copy of Dr. Rivlin's testimony before the Committee discussing the need to alter the Federal approach toward public works spending. She concludes, among other things, that the Federal Government should limit its role to infrastructure investments with a clearer national significance, that the Government should alter the current bias toward capital-intensive investments (as opposed to maintenance and rehabilitation), and that greater use of user charges be employed to raise money for needed projects and lessen demand for

low-priority work. She concludes that policies reflecting these considerations would meet the nation's infrastructure needs at a cost of about $20 billion a year — $4 billion less than current spending. Would you please comment in some detail.

ANSWER: Dr. Rivlin testified that "to meet a reasonable definition of needs, annual capital outlays by all levels of government would have to increase from $42 billion to roughly $53 billion between 1983 and 1990." This is a total increase of $77 billion. Dr. Rivlin suggests that with proper program revision, this increase could be reduced by $56 billion, leaving the Federal government with an actual reduction of $32 billion from current spending levels.

Such savings would only be possible under very restricted uses for Federal funds, a massive increase in user fees and deferral of recent Congressional decisions with regard to highways and airports.

She would reduce the recent highway funds by $3.5 billion a year when little of the recently enacted increase is available for city streets and county roads. Dr. Rivlin does not provide the $10 billion estimated to install a new air traffic control system and inland waterway user fee increases of nearly $1 billion per year may be unrealistic.

The NGA supports a more balanced Federal support for maintenance and the elimination of any bias against maintenance. NGA also supports reasonable and dedicated user fees where appropriate.

6. What would be the one or two most effective things the Congress could do to strengthen the infrastructure of our nation?

ANSWER: It is very difficult to select one or two "most effective" things the Congress could do to strengthen the infrastructure. In addition to the balanced set of recommendations included in the attached NGA paper on infrastructure, Congress should:

a. Provide a certainty of funding procedures that allows for long term planning and capital budgeting. The existing roller coaster of Congressional budget and appropriations decisions combined with Administration deferrals and recession cause great uncertainty and short range decisions at the state and local levels.

b. Recognize the primary role of each state to coordinate the inventories, planning, budgeting, and financing of the infrastructure needs of the nation. Federal action should complement the existing and primary role of the states. Congress should encourage innovative state programs especially in financial packaging, user fees, and cost sharing.

c. Eliminate any bias against maintenance and provide for state flexibility to improve management practices.

7. To what degree should an infrastructure program be related to a program to relieve economic distress?

ANSWER: Adequate capital facilities are a vital part of any national employment policy and as such should provide for long term economic growth and jobs. Joint solutions to infrastructure and economic distress should be pursued when possible.

Senator Domenici's Question

One of the conclusions of the recent CBO infrastructure report was this: "Increasing the use of federal block grants for infrastructure would also give states and localities greater discretion to use available resources to meet their most pressing needs. Water resources investment priorities, for example, are shifting from large interstate developments to small intrastate developments to small intrastate projects. Replacing federal project-specific appropriations with block grants to states for any water development purpose might allow a closer match of authority and local priorities." In view of the water resources block allocations proposals that I have made in the past, would you please comment.

ANSWER: The NGA supports these CBO conclusions and the proposals of Senator Domenici that "replacing new federal project-specific appropriations with block grants to the states for any water development purpose might allow a closer match of authority and local priorities."

The NGA has not developed a cost sharing proposal for water projects that weighs either a fixed formula or case by case approach.

National Governors' Association

**Scott M. Matheson**
Governor of Utah
Chairman

**Raymond C. Scheppach**
Executive Director

July 25, 1983

## A PROPOSED WORKPLAN FOR DEVELOPING A NATIONAL EMPLOYMENT POLICY FOR THE NATIONAL GOVERNORS' ASSOCIATION

Prepared by the NGA Task Force on Jobs and Infrastructure

America faces an enormous economic challenge in the coming decades. The nature of our response to this challenge will have profound consequences for the standing of our country in the world community and for the expectations of American citizens and their counterparts in other countries.

Looking ahead, experts have cited weak industrial production, a high volume of business failures, a record-high trade deficit, obsolete manufacturing practices and equipment, and problematic interest rates as trouble signs for the country's economic future. More immediately, evidence of current problems facing this country is all too clear. Over 11 million people are currently officially unemployed, and the President's Council of Economic Advisers now estimates that the unemployment rate will remain above 6 percent after the end of the recession, meaning that more than six million people will be out of work during a time of recovery. Projections indicate that future unemployment will be tied to major dislocations in the workforce due to retrenchment in some industries and expansion in others.

In a related area, concern is growing over the adequacy of the nation's infrastructure to meet the needs of the public and to support sustained economic growth. Roads, sewers, railroads, and water distribution systems must all be well planned and in good repair if they are to support major economic initiatives.

At the 1983 winter meeting of the National Governors' Association, we took the position that the "development of a comprehensive national employment policy must be assigned the same level of priority by the federal government as national defense, the maintenance of a sound currency, and support of a healthy economy." To follow up on this position, the Task Force recommends that the Executive Committee:

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- establish as a primary Association goal the development of NGA proposals for a national employment policy;
- request that, the standing committees submit their recommendations for components of such a policy by March 1984;
- provide a list of suggested study topics (some of which are included in this paper) among which the standing committees may set priorities and to which the committees may add as they work to develop their recommendations; and
- incorporate the proposals of the standing committees into a draft policy position to be discussed by the Association at its 1984 annual meeting.

The Task Force recommends further that the Executive Committee develop a set of principles to which a national employment policy would conform. To aid in this work, the Task Force offers the following list as a starting point and as a preliminary guide to any work undertaken by the standing committees:

- The policy should be comprised of complementary policies on economic development, employment, and infrastructure.
- The policy must have as a primary goal creating the opportunity for all workers to have productive employment.
- The policy must have the capacity to prevent major dislocations and to provide support and transition assistance in the event that dislocations do occur.
- The policy must provide maximum flexibility to meet the varied needs of states, industries, regions and citizens. To this end, it must limit the prescriptiveness that characterizes major federal initiatives and focus instead on achieving stated goals.
- The policy must strike an appropriate balance between promoting growth industries and maturing industries.
- The policy must ensure that environmental protections are maintained.

- The policy must be consistent with the Governors' policies on sorting out roles and responsibilities among the federal, state, and local governments and the private sector, and it must be based on cooperation and partnership among those sectors.
- The policy must be equitable.
- The policy must incorporate a stong role for the private sector.

The following is a list of study topics which might form the basis of the NGA contribution to the national debate on development and employment policy. The list focuses on four areas: economic development, employment, infrastructure, and development of a coordinating mechanism.

## ECONOMIC DEVELOPMENT

Essential to a healthy economy is a vital private sector that is innovative, inventive, and energetic and that is supported by extensive research activities and a motivated, well-educated workforce. There has been a lengthy debate on how, if at all, government can foster such a climate. The Task Force believes that there are indeed steps that states and the federal government can take in the areas of development and education to support economic growth. These are outlined below.

### Development Policy

Government affects private economic decisions through tax policy, regulatory activity, fiscal policy, and direct spending programs. Some of these government activities are well designed and have the desired consequences, while others have side-effects that are undesirable. Many economists are calling for a broad review of government "industrial policies" or development policies, and the Task Force believes that such a review would be useful. To support this effort, the Task Force recommends that NGA:

- participate, with the federal government and the private sector, in the development of appropriate programs to assist ailing industries where such assistance would be productive and to provide venture capital for emerging industries;

- participate, with the federal government and the private sector, in the development of initiatives to increase the attractiveness of U.S. products in the international market;

- participate with the federal government and the private sector in a review of current barriers to the export of U.S. goods to determine whether modifications are desirable;

- participate, with the federal government and the private sector, in an effort to identify the impact of government programs and policies on service industries such as health care and social services;

- encourage congressional and administration efforts to reduce the federal deficit as a means to ensure that necessary capital is available when it is needed;

- continue to support the use of industrial revenue bonds as an important economic development tool;

- review proposals for changing the federal tax code to determine how they might affect state and federal economic development activities;

- continue to support regulatory reform, at both the state and the federal levels, which simplifies procedures and eliminates unnecessary paperwork while continuing to afford needed protections;

- encourage the federal government to review its research and development programs to ensure that appropriate emphasis is being placed on these important activities;

- support labor-management efforts to increase productivity;

- promote exchange of information among states and between states and others on effective economic development approaches;

- promote exchange of information among Governors on technological innovations of interest to states;

- encourage Governors to review state economic development programs to ensure that they have kept pace with changing needs; and

- review NGA policies to ensure that they reflect the conclusions reached through the initiatives listed above.

## Education

Policymakers have long recognized the linkage between a well educated workforce and a thriving economy; some experts label education an important "human capital development" activity. State and local governments have taken the lead in providing education services, and states now supply the bulk of the funding for elementary and secondary programs. Clearly, education is one of the most important economic development activities of state and local government, and to ensure the quality of this important service, the Task Force recommends that NGA:

- undertake a detailed review of report of Task Force on Education for Economic Development to develop an inventory of needed federal and state action to make education more responsive to the developing needs of the employment market;

- place special emphasis on school-to-work assistance for youth to prevent the transition problem that occurs when high school graduates cannot find jobs;

- work with the federal government and the private sector to ensure that the vocational education system has the information on private sector needs and public economic development policies necessary to permit the design of effective retraining programs and the facilities needed to implement these programs;

- encourage universities and colleges to work with the private sector to ensure that the link between curricula and the labor market is appropriately strong; and

- review NGA policies to ensure that they reflect the conclusions reached through the initiatives listed above.

## EMPLOYMENT

In addition to encouraging economic growth, indirectly creating employment opportunities, there are a number of steps that government should take to directly enhance employment programs. The Task Force recommends that NGA:

- participate in a review of current federal, state, and local employment programs to determine whether their design, scope, and funding levels are appropriate to meet current and future needs of the American economy;
- work with the federal government to develop proposals for reorganizing federal and federal-state employment programs to more effectively help unemployed and under-employed persons to find permanent jobs;
- encourage Governors to review state employment programs to ensure that they involve relevant actors and have kept pace with changing needs;
- work with Congress and the Administration to develop a means for evaluating the effect that federal budget proposals have on national employment;
- continue to focus on the problems confronting displaced workers through technical assistance to states in the implementation of the Jobs Training Partnership Act and through participation in assessments of the adequacy of the program design and funding level;
- encourage private sector initiatives to retrain workers to keep pace with technological innovations and to avoid layoffs;
- develop a vehicle to focus federal attention on the financing crisis in the Unemployment Insurance system and to devise alternative funding mechanisms which recognize the growing problems confronting declining industries;
- identify more effective ties between the Unemployment Insurance system and the training programs which are available;

- develop a more detailed analysis of the impact of work incentives in AFDC and in Food Stamps;

- explore means to convert income assistance programs to supported work;

- identify the changed service needs that result from a higher rate of participation in the work force by women;

- continue to advocate that any federal emergency jos programs conform to the five principles in the March 1 policy statement: preservation of existing programs, flexibility, efficiency, targeting, and timeliness; and

- review NGA policies to ensure that they reflect the conclusions reached through the initiatives listed above.

## INFRASTRUCTURE

The deterioration of the nation's physical infrastructure and the need to provide adequate capital capacity in growth areas are primary economic development issues. As a result of declining capital investment and deferred maintenance and repair, public facilities such as transportation, sewer, and water distribution systems may not be able to continue to provide levels of service necessary to sustain economic activity, increase productivity, or encourage new development. Maintaining adequate investment in basic structures is essential for supporting a strong economy capable of generating additional employment opportunities and enhancing U.S. competitiveness at home and abroad. Moreover, sound capital facilities are essential to the health and safety of the persons who rely on them.

The task of strengthening our infrastructure will require efforts on many fronts, including: capital planning, funding strategies, and management approaches.

## Capital Planning

Rebuilding our infrastructure to yield greater economic benefits will involve strong and realistic capital planning by each governmental body for those facilities under its jurisdiction. Accordingly, the Task Force recommends that Governors:

- work cooperatively with Congress and others to compile data on the condition of each state's capital structure and to assess future investment needs;
- analyze the effect of federal capital spending proposals on state priorities;
- work with the Administration and others to develop federal capital initiatives which are based on state and local government capital needs analyses. Such initiatives should concentrate on improvements which foster economic activity and should fairly balance the needs of growing and mature states;
- work to strengthen the use of capital planning at the state and local levels; and
- review NGA policies to ensure that they reflect conclusions reached through the initiatives listed above.

## Funding Strategies

While the federal government must continue a major role in financing infrastructure improvements, the responsibility for such needs is shared by state and local governments. Funding strategies require commitment from all levels of government, with increased support from the private sector. To ensure that a varied program of funding strategies is developed that is commensurate with the needs in this area, the Task Force recommends that Governors:

- work with the federal government to identify opportunities for combining related categorical programs into block grants so that state and local priorities determine funding uses;

- encourage innovative approaches to infrastructure financing that supplement existing programs and address specific projects and problems by working with the federal government to remove obstacles to implementing such approaches and by establishing clearinghouses for sharing information on worthwhile innovative ideas among states;

- advocate that sufficient transition time be built into new or restructured programs, so that procedural changes can be implemented with minimal disruption for state and local capital plans;

- encourage individual private enterprises which are the principal users of certain public infrastructure facilities to assist in the planning, initial capitalization, and on-going support of the projects;

- encourage the federal government, universities, and the private sector to continue research on and development of new technologies for building and rehabilitating capital projects;

- explore other areas which offer particular promise for creative application to the infrastructure problem, including the following:

  - Bond financing: States might look to innovative arrangements, such as pooling.

  - Infrastructure banks: State and federal governments might consider infrastructure banks as one option for enabling the acceleration of needed work and for providing a long-term, replenishable funding source.

  - User fees: Appropriate assignment of specific revenues for particular capital programs might also be reviewed for wider application because it provides a stable, predictable funding base. However, care should also be taken to assure that user fees are not applied in cases where they place undue hardship on users with limited needs.

  - Cost sharing: Federal policies on cost sharing for major infrastructure projects might be reviewed as to their equity and their effect on economic development.

  - Standby safeguards: Federal and state governments should explore mechanisms to counteract the boom/bust cycles to which the construction industry is so susceptible. Timing increased public spending to the initial stages of an economic down-turn would stimulate the private sector when it needs it most and would reduce recessionary impacts.

  - Regional approaches: Regional cooperation in major infrastructure initiatives may hold promise and should be explored; and

- review NGA policies to ensure that they reflect the conclusions reached through the initiatives listed above.

## Management Approaches

An important method for stretching the limited capital resources available is improving the techniques with which facilities and investments are managed. The Task Force suggests that the Governors work with all levels of government and the private sector to improve this management through:

- assuring that the best technical and management techniques are employed to reduce costs and to provide lasting benefits;

- emphasizing scheduled maintenance and timely repair of public facilities to minimize costly rebuilding;

- requiring high ethical standards in facility and financial management with careful monitoring and supervision of construction, service and maintenance contracts;

- strengthening efforts to educate the public about the importance of infrastructure investment, enchancing public involvement and commitment;

- re-examining design standards to make sure they match capital needs and financial means;

- considering whether private management would improve services and cost-effectiveness;

- modifying funding policies to remove any bias toward new construction in cases where repair or better utilization of existing facilities is appropriate and cost-effective; and

- providing maximum flexibility to use resources in the most cost-efficient way, minimizing red-tape wherever possible.

Governors should then review NGA policies to ensure that they reflect the conclusions reached through the initiatives listed above.

## COORDINATING MECHANISM

Many experts in development policy have recommended that a board or other body be established to oversee the national employment/development policy. Suggestions range from delegating this group broad authority to implement the policy to providing the group with only an advisory role. The Task Force recommends that the National Governors' Association review the results of its inquiries in the areas of development, employment, and infrastructure and determine what coordinating mechanism is appropriate to ensure the success of the program NGA supports.

This workplan is submitted to the NGA Executive Committee for its consideration. The Task Force is available to modify it at the direction of the Committee. Upon final action by the Executive Committee on this document, the Task Force on Jobs and Infrastructure recommends that the Task Force go out of existence and that the responsibility for coordinating the development of any NGA policy on national employment be assumed by the Executive Committee.

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